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U.S. POLICY TOWARD THE NEW INDEPENDENT STATES

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U.S. Policy Toward the New Independ...

HEARING BEFORE THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JANUARY 25, 1994

Printed for the use of the Committee on Foreign Affairs



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U.S. POLICY TOWARD THE NEW INDEPENDENT STATES

TUESDAY, JANUARY 25, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman) presiding.

Chairman HAMILTON. The meeting of the committee will come to order.

The Committee on Foreign Affairs meets today in open session to discuss U.S. policy toward the New Independent States. Our witness today is the Honorable Strobe Talbott, Ambassador-at-Large and Special Advisor to the Secretary of State for the New Independent States and Under Secretary of State Designate.

In addition, it is the Chair's intention, during the course of this hearing, when a quorum is present, to markup and report out H.R. 323, relating to the treatment by the Federal Republic of Germany of Hugo Princz, a U.S. citizen.

Ambassador Talbott, you last appeared before the committee on October 6, 1993; to discuss the situation in the NIS. Obviously, there have been several developments since that time, and many important events that we will go over with you in the course of this hearing. We are very eager to hear your testimony today and your assessments of these developments and their implications for U.S. policy toward Russia and the other states of the former Soviet Union.

In recent months, and even days, the political and economic situation in Russia appears to have deteriorated significantly:

The ultra-Nationalist Party of Vladimir Zhirinovsky emerged as the largest single party bloc in the December 12 elections; the early proceedings of the newly elected Parliament suggest that the political bickering in Russia may intensify, rather than diminish; reformist Deputy Prime Minister Gaidar and Minister of Finance Fyodorov have resigned from the new Russian Government. In recent days, the Russian economic situation has suffered a serious setback. the ruble plunged 7.3 percent, and monthly inflation has jumped to 20 percent, up from 12 percent in December. And statements earlier this week by Foreign Minister Kozyrev that Russian troops will stay in the Baltics despite commitments for their early withdrawal are further cause for concern about the political climate in Russia today.

We are eager to hear the administration's assessment of these developments and their implications for U.S. policy toward Russia and the other states of the former Soviet Union.

The Chair is interested in keeping to the 5-minute rule. Members should finish asking their questions by the time the yellow light appears.

[Whereupon the committee proceeded to other business.]

Chairman HAMILTON. All right, Mr. Talbott. We will begin with your testimony. You may proceed, sir, as you see fit.

**STATEMENT OF STROBE TALBOTT, AMBASSADOR-AT-LARGE
AND SPECIAL ADVISOR TO THE SECRETARY OF STATE FOR
THE NEW INDEPENDENT STATES, AND DEPUTY SECRETARY
OF STATE DESIGNATE**

Ambassador TALBOTT. Thank you.

To save time, I have submitted for the record a prepared statement which I will summarize now.

THE PROSPECTS FOR REFORM IN RUSSIA

As you know, Mr. Chairman, I am charged with coordinating our policy toward all 12 of the New Independent States that have emerged from the former Soviet Union.

What I would like in these opening remarks to concentrate on is one of those states: the Russian Federation. That is because recent events have raised questions about what is happening there.

For Russia, and more precisely for the cause of Russian reform, the last several months have been, in several respects, a time of troubles.

The process of reform that we are committed to support has encountered severe opposition.

As you mentioned, I last testified before your committee on October 6.

The Russian White House, seat of the old Soviet parliament, was a charred ruin.

In the nearly 4 months that have passed since then, opposition to reform has taken on a different manifestation. A substantial number of ultra-nationalists and Communist deputies won seats in the December 12 elections to the new parliament.

Several prominent reformers have announced they are leaving the government.

We regard these developments as serious.

And we will be taking them very seriously as we watch them play out.

However, some in the West are concerned that what is sometimes called the Second Russian Revolution has failed, that counter revolution has set in, that Russian reform is a lost cause, and that Russia is reverting to historical type, that is, in some sense, back on the geopolitical war path.

That is not our view.

We believe that the Russian elections and their aftermath underscore what have been three central premises of the policies of this administration.

First, there is a titanic struggle over the future of Russia.

Second, we have a huge stake in the outcome of that struggle.

And, third, we can have some effect on that outcome both in what we say and what we do. We have never had any illusions about how difficult this task would be or how long it would take.

It will take not just years, but decades, a generation or more.

Nor should we have any doubts about how much is riding on the eventual success of the cause of reform.

U.S. POLICY OBJECTIVES REMAIN CONSTANT

The objective of our policy is the evolution, over time, of a stable, democratic, market-oriented Russia, a Russia secure in its own borders and respectful of the borders of others, a Russia integrated into the West rather than contained by the West.

That goal is overwhelmingly in the interests of the American people.

It will mean fewer U.S. tax dollars spent on defense, a reduced threat of weapons of mass destruction, and a powerful, reliable partner for diplomacy as well as commerce in the 21st Century.

But getting from here to there will require patience, firmness, and steadiness on our part.

It will require a constant, clear-eyed analysis of the facts as they unfold, and a readiness to adjust our tactics while remaining true to our strategic objective.

Let me, in that spirit, review how we see the situation right now.

In testimony before the Senate yesterday, I concentrated on economics. With you today, I would have more to say on Russia's relations with other states, particularly neighboring states in its own region.

AID PROGRAM REINFORCES POSITIVE ECONOMIC AND POLITICAL TRENDS

But first, let me review the strategy behind our support for economic reform in Russia. Our approach in assembling last year's foreign assistance program was to reinforce those trends in Russian political and economic life that together, we believe, constitute the essence of the great transformation underway in that country.

Those trends are democratization and privatization.

They were two of the key themes in the Vancouver and Tokyo packages of bilateral assistance put forward last year and to which this body, in a remarkable display of bipartisanship, gave its backing.

But let me put that program into a larger context.

Our foreign aid program is intended to help prime the pump for the flow of much higher levels of support from two other sources: from the international business community in the form of trade and investment, and from the international financial institutions in the form of loans to help Russia make the transition from a command to a market economy.

WESTERN SUPPORT LINKED TO ECONOMIC REFORM

In Moscow, 2 weeks ago, Mr. Yeltsin vowed to keep reform going full speed ahead; and President Clinton promised he would use our

leadership position in the G-7 and the international financial institutions to intensify multilateral support for Russian reform.

President Yeltsin needs to have the confidence that if he continues to press forward on a strong economic reform program, western support will be swift and substantial.

But he and his colleagues, in both the executive and legislative branches of the Russian Government, must understand something else as well, the cause-and-effect relationship between internal reform and outside support: our support will follow their reform; it cannot be the other way around. A healthy market economy—that is, one that is hospitable to large-scale outside investment which merits support from the IFIs—requires a stable currency, which requires fiscal and monetary responsibility.

They are necessary to combat inflation, which poses a huge political danger in its own right.

Hyper inflation destroys savings, investments, pensions, and currency.

If it gets out of control, it threatens the economic life of individuals and states alike. Therefore, it can topple governments with the most dangerous of results.

Therefore, as Russia maps its economic course for the coming year its leaders must realize that slowing the pace of reform will not ease the social pain of economic transition.

To the contrary, gradual reform is a prescription for hyperinflation and economic collapse.

Since early last year, Russia has skirted the abyss of hyperinflation and, to the credit of the leadership, backed away.

For its own sake and for the world's, it must keep moving in that direction.

The challenge now facing the Yeltsin government and its allies in the new parliament is to keep economic reform going. That means, first and foremost, controlling budget deficits and inflation, while doing more to cushion the adverse impact of reform on vulnerable groups.

U.S. MUST REMAIN ENGAGED

The challenge now facing us is to do everything we can to help. I said this is a long-term proposition for Russian reform, and our support must also be a long-term proposition.

The next 2½ years, between now and the next Russian election in 1996, will be a critical period.

The United States cannot be a spectator. We must remain engaged just as we were engaged this past year.

When I say "we," I mean both branches of the government, the administration and the Congress, both Houses of Congress and both our parties.

We worked together to assemble the Tokyo and Vancouver packages of support. We have put our taxpayers' money where our Nation's interests and principles were.

We have set the tone and provided the key ideas for the response from the international community as a whole.

American engagement and leadership made a difference; and it will continue to make a difference as those programs establish themselves on the ground during the months and years ahead.

RUSSIAN FOREIGN POLICY

Now, Mr. Chairman, let me say a bit more about another crucial area of Russian reform: foreign policy, that is, how Russia conducts its relations with other states, particularly those in its own neighborhood.

It is, and has been a bedrock principle of this administration's policy that we support the evolution of a Russian state that is free, secure, democratic, and prosperous and that allows other states to achieve the same goals.

As President Clinton put it in Moscow 2 weeks ago, Russia must demonstrate, particularly to its former colonies that are now fellow New Independent States, that a big neighbor can be a good neighbor.

This redefinition of Russian statehood is, we believe, very much in Russia's interests as well as our own.

Russia wants—and, if it remains on a reformist course, deserves—to be integrated into the community of free, democratic states.

It is overwhelmingly in Russia's own interest, as well as ours, that the forces advocating and aspiring to integration prevail over those of extremist nationalism, xenophobia, and neo-imperialism.

Russia's integration into the international community depends upon its acceptance of international standards of conduct outside its own borders.

The recent record of Russian foreign policy is—like so much else that we are discussing today—mixed. There have been ups and downs. Russian conduct in several of the neighboring states, particularly in the Transcaucasus, has been troublesome; and it has occasioned some blunt exchanges in our diplomatic dialogue with Moscow.

Still, there have recently been some encouraging developments.

TRILATERAL ACCORD ON UKRAINIAN

The most dramatic is the trilateral agreement among Presidents Clinton, Yeltsin, and Kravchuk that will—we all hope—lead to the transfer of all nuclear weapons to Russia for dismantling, in exchange for prompt and fair compensation to Ukraine for the uranium in the warheads of those weapons.

This development is vastly important. It is important for the cause of global nonproliferation, for the cause of political security and stability in Europe, for U.S. security, for the national interests of Ukraine, and for those of Russia as well.

The trilateral accord, signed by the three Presidents in Moscow Friday, is a testament to President Kravchuk's statesmanship and political courage. But it is also a credit to President Yeltsin.

In signing the agreement a week ago Friday in Moscow, he was committing his government to a series of important assurances with regard to the security of Ukraine.

By extension, those undertakings should be reassuring to other states in the region as well.

If, as we hope he will, President Yeltsin and his government, comes to terms soon with Latvia and Estonia on a timetable for the withdrawal of Russian forces from those two states, that, too, will

not only be welcome in its own right, it will also send a calming signal to other states that are understandably wary of Russian intentions.

PARTNERSHIP FOR PEACE

Let me say a word in this connection about the Partnership For Peace, which is the centerpiece of the initiative that President Clinton has put forward for building a new, post-cold war security structure in Europe.

The Russian Government has vowed to participate actively in the Partnership For Peace.

In making that commitment to President Clinton, President Yeltsin was reaffirming, in yet another context, that his government will honor the inviolability of interstate borders.

Since that principle is explicit in the terms of membership for the Partnership, we feel that the President's initiative is well suited both to the opportunities of the present moment and to the uncertainty of the future.

Mr. Chairman, there is one piece of equipment that we do not have, a crystal ball. But we do have, in the Partnership For Peace, the next best thing, a flexible mechanism for responding to events in Europe as they unfold.

Russia itself will have a profound influence on what kind of security structures evolve in Europe and, indeed, across Eurasia.

It does not have a veto over our decisions, but it does have a role to play in creating the realities to which we, and the Alliance, will respond with our decisions over time.

If Russia hews to a course of internal reform, respect for its neighbors' independence, and cooperation with the West, then NATO will continue to evolve in the direction of maximum inclusiveness.

If, however, reform in Russia falters, NATO will be there to provide for the Allies' collective defense, as well as to work, through the Partnership for Peace, to promote regional stability with those who remain active participants in developing the closer ties with NATO that the Partnership is designed to foster.

In short, Russia's choice about its own future will affect the future of NATO and PFP. The Partnership, like Russia itself, can go either way. If necessary, it can provide the basis for us and our NATO Allies to expand the bulwark of collective defense against a new threat, should one emerge in the East.

Or, if possible, it can serve as a mechanism to help all the nations now emerging from Soviet-style communism eventually to attain complete and irreversible integration into the community of prosperous democracies.

In short, Mr. Chairman, on this subject, as on others I have touched upon, we have no doubt where the Russian reformers want to go; and they must have no doubt that, as they keep moving in that direction, we are with them.

[The prepared statement of Ambassador Talbott appears at the conclusion of the hearing.]

CURRENT STATE OF ECONOMIC REFORM

Chairman HAMILTON. Thank you very much, Ambassador Talbott. We appreciate your testimony.

I would like to begin with the economic reform issues that you have been discussing.

As I understand what you have said, our position has always been, and is now, that Russian reform should go forward full speed.

Now, it is pretty obvious that Russian reform is not going to go ahead full speed. Let me quote to you from a very distinguished source, *Time Magazine*, impeccable, as you know, in its journalistic reputation.

"When Bill Clinton was in Moscow 2 weeks ago, Boris Yeltsin assured him that free market reforms would continue in spite of the December elections that boosted extreme nationalists and old Communists into parliament as the dominant opposition.

'But Air Force One was hardly airborne before the Russian Government started stepping back from its pledges.'"

I am quoting selectively here.

"Chernomyrdin effectively won. The government's famous young reform ministers were mostly dumped or demoted. In their place arrived a group of Soviet-era leftovers, production managers from the old military-industrial complex who favor salary increases and handouts to money-losing State industries.

'The period of market romanticism has ended for us,' Chernomyrdin crowed."

The article concludes, "The cabinet shake up was an embarrassing turn of events for Clinton."

What happened?

THE SOCIAL CONSEQUENCES OF REFORM

Ambassador TALBOTT. Your citation of that particularly distinguished journal requires me, I think, to make a statement of limited liability here.

I do bear some responsibility for some things that have appeared in *Time Magazine* over the years. The last one appeared, I think, around December 1992. I suspect in other settings I will have a chance to talk about some of those writings.

I would characterize both what has happened and our response to it a little differently. There is no question that December 12, the Russian elections, and their results constituted a watershed development.

President Clinton called it, within 24 hours, a wake-up call, a wake-up call both to the Russian reformers and of course to the international community in its efforts to support Russian reform.

It is important to understand what the message is that we ought to receive from that wake-up call. The message I think—and on this there is not a great deal of disagreement either among the Russian reformers or among ourselves—the basic message is that while reform should certainly go forward and there should be no serious discussion of slowing it down, reform needs to be broadened and needs to be redefined in a way that takes more account of the social and, indeed, the political consequences of reform.

Now what that means in more practical terms is this: Russian reform, as it has been conducted over the last couple of years, has made a lot of people resentful of current reality and fearful of the future and in some cases nostalgic for the past.

That is a very bad combination of sentiments to have churning around in the body politic. If a combination of sentiments reaches critical mass, you can get a backlash against reform. So more needs to be done in the area of social protection.

We are hopeful that the combination of ministers within Prime Minister Chernomyrdin's government and reformers who will be in the parliament, who will have a role to play in the formulation and implementation of policy, will hue to that line.

SHIFT IN BALANCE OF POWER

Chairman HAMILTON. Do you think, Mr. Ambassador, that the balance in the government has clearly shifted toward those who are skeptical of reform? Is that a fair statement?

Ambassador TALBOTT. It has certainly shifted toward personalities and individuals who are associated more with the old way of doing things. And that is a cause of concern to us.

There are a number of ministers still in place, including the one who has supervised what we think is the single most successful and promising aspect of Russian reform, that is privatization; he is still in the government.

But there is no question that the line up of personalities is cause for concern as are some of the statements, including the one you just quoted, about market romanticism. I don't know what market romanticism means, and I don't know what it would mean to have it translated into new policies.

Our hope is that during the deliberations which are already underway, a consensus will emerge involving key reformers in the new parliament that will keep reform on track. We have to gear our policy toward action and the policies of the Russian Government and not exclusively toward personalities. We certainly understand the significance of Mr. Gaidar and Mr. Fyodorov's departure.

CONGRESSIONAL APPROVAL OF PROPOSED ASSISTANCE DOUBTFUL

Chairman HAMILTON. The question, I guess, that is going to confront us in the Congress this year is, given these trends in Russia, why should we give them any aid at all?

There are two very distinguished commentators who don't often agree with each other. Jeffery Sachs is quoted as saying it makes little sense for the Clinton administration to commit to large-scale economic assistance unless reformers regain power in Russia.

Steve Cohen, who comes at the problem from a different viewpoint and rarely agrees with Jeff Sachs, says roughly the same thing. They both have, at this point, the gravest doubts as to whether or not we should provide any assistance to the Russian Government.

The question is, given these developments, why should I vote for the \$900 million in aid to Russia the administration plans to request for fiscal year 1995?

GRASSROOTS NATURE OF BILATERAL AID PROGRAM

Ambassador TALBOTT. Let me answer that in part by saying why you should feel vindicated in having voted as you did and having played a key role in supporting the assistance program that we put forward last year.

Our means of supporting the process of reform in Russia has to be looked at in two categories, bilateral foreign aid and what we do through international financial institutions.

By the way, the coordinator of our assistance program, Ambassador Simons, is here and available to come to the witness table if you should want to hear from him in more detail about our programs.

Our bilateral assistance program is not directed in the main at the Russian Government per se. It is not directed at the cause in some sense of propping up the Russian economy. It is directed much more at the grassroots. It is directed at reformers and reformist projects wherever we can find them. And it is directed at the private sector.

The two principle themes, as I mentioned, are democratization support and privatization support. I would say in a nutshell now, more than ever, we need to continue with those kind of programs.

PRINCIPLE OF CONDITIONALITY APPLIES TO MULTILATERAL AID

Chairman HAMILTON. Your statement a moment ago was that our support should follow reform.

Ambassador TALBOTT. Correct. That was in the context of the IFIs' multilateral support. The international financial institutions—which is to say, the World Bank, the IMF, the EBRD, and so forth—all operate quite properly, on a principle of conditionality. They are prepared to support, in different ways, the stabilization of the Russian economy. But there must be stabilization in place for them to support.

Chairman HAMILTON. Are we, in the IMF and the World Bank, going to press the case for easing up on conditionality with respect to economic reform?

Ambassador TALBOTT. No. I would not put it that way. We believe the principle of conditionality is very important.

Interestingly and relevantly, some of the key Russian reformers, including Boris Fyodorov, who apparently has now left the government and will be championing the cause of reform from within the Duma. When he was the Finance Minister of Russia, he argued as strenuously as anyone when he came to G-7 meetings for IMF conditionality.

There is no question about doing away with the principle of conditionality.

Chairman HAMILTON. I have a quotation in front of me from the Financial Times of January 14. "Mr. Clinton, under the slogan 'more reform,' 'more support,' promised to press the IMF and the World Bank to release funds as rapidly as possible to ensure that the reform momentum was maintained."

Ambassador TALBOTT. If the right Russian policies are in place. I was party to the conversations between President Clinton and President Yeltsin in Moscow.

I can tell you that the linkage between the Russian Government's monetary and fiscal policies and the United States' ability to work with the G-7 and the IFIs to broaden and intensify our support for reform was absolutely explicit, and I think is quite clearly understood by the Russian side.

BILATERAL AID SHOULD GO FORWARD

Chairman HAMILTON. What must Russia do now in order to assure that the administration will continue to support large aid levels for Russia?

Ambassador TALBOTT. Are we talking, sir, in the multilateral area, macroeconomic support?

Chairman HAMILTON. We are talking about both.

Ambassador TALBOTT. You let me know when you want to get more into the details of the assistance program because we are prepared to talk about that.

We think that our bilateral program which was put forward last year should continue and that it should not be made contingent on economic statistics coming out of the Russian economy.

But only the critical question—

Chairman HAMILTON. Even if they back away from reform to a greater extent than they have now done, you think the bilateral assistance ought to go forward?

Ambassador TALBOTT. Well, who do you mean by "they"? If you mean Prime Minister Chernomyrdin and his colleagues, we will, of course, always be flexible on what we are doing and make sure that it takes into account the conduct and the policies of the Russian Government.

But please let me stress again many of the targets of our bilateral support—that is what the American taxpayers have paid for—are not government ministries in Moscow. They are regions, communities, spread out all across that vast country which are themselves reforming.

A high degree of decentralization has already taken place there. There are now private banks in operation. We are working to help them. There are political groupings that are trying to form modern political parties. We are working to help them. There are farms that are operating on the basis of private agriculture. We are working to help them. All of that must continue.

CONSEQUENCES OF CONTINUED HIGH INFLATION

Chairman HAMILTON. All right. But suppose Mr. Gerashchenko, head of the Central Bank, continues to pump money into the economy with massive subsidies to the state industries. We know that will fuel inflation. That is exactly what is happening, and all indications are that it will continue to happen. He is still there, and he is still pumping money into the economy. So it doesn't matter what happens on the bilateral side or any other side, Russia will continue to have higher inflation.

Ambassador TALBOTT. Just to review the figures here, up until the previous Russian Government imposed what we think were sound austerity measures in the fall of last year, Russian inflation was as high as, I think, 35 or 40 percent and certainly often down at the level of 25 percent a month. That is a month.

When these austerity measures were put in place in the fall, Russian inflation came down to the level of about 12 percent a month. Only in very relativistic terms, of course, is that good news. But it is within a couple of percentage points of what the International Monetary Fund felt would be an acceptable level for the IMF to provide the second installment, the \$1.5 billion installment of support for the Russian economy.

I am coming to the point that I think is responsive to your question. Inflation is a bottom-line criteria. If the Russian Government can hold inflation at reasonable levels relatively speaking and can reach agreement with IMF and with the IFIs—and there are going to be negotiations in the coming days on this—then the IFIs, with the United States working very much as part of the process, will be able to continue providing support. But if inflation goes back through the roof, then it will not be able to do so.

The important thing is that the Russian Government understands that.

CAUTION ON CONTINUED SUPPORT FOR AID TO RUSSIA

Chairman HAMILTON. Mr. Ambassador, let me say from my standpoint, as one who supported aid and has been convinced of the necessity for it, if you still have, months from now, a central bank in Russia that is pouring money and credit into the economy, into these large state industries, it is going to be very difficult for me to cast an aye vote for aid to Russia.

Ambassador TALBOTT. We have been working with you closely over the last year. I know how meticulous you are in looking at the specifics of our program.

When Ambassador Simons and I come back up here, as we will, to discuss with you our proposal for fiscal year 1995, we will expect from you a high degree of scrutiny and, indeed, skepticism with regard to the contents of that program.

But I can predict that what you will see is a continuation of those programs which should not be held hostage, as it were, to the wisdom or the folly of the central government's policies.

A great deal of what we are doing bilaterally goes to the grass-roots. Reform is now a generalized process in a highly decentralized country. What we must do is continue to support it wherever we can find it.

Chairman HAMILTON. I understand that distinction. I think it is an appropriate distinction to make. I understand how our bilateral aid flows.

But if you have a central bank that is not prepared to get tough on inflation, then anything else you have done on the other side—privatization and all the rest—just can't work. That will undercut everything that you had tried to do.

So I want to be supportive. I am persuaded in the direction of aid to Russia, but I want you to know that there are a lot of developments taking place in Russia, primarily centered around the central bank, that make me exceedingly uneasy.

I will give you a prediction. If they continue to pump money into their economy, and inflation continues, then they are going to have to turn to wage and price controls. That will result, of course, in much more extensive government involvement in the economy and

movement away from privatization and all the other features of a market economy.

Ambassador TALBOTT. And, indeed, back toward the old way of doing things.

If I could just say—gratuitously perhaps, but I would like to say it anyway—one of the many useful things about a hearing like this is that not only do we have an opportunity to talk to each other but we also have an opportunity to send messages to other governments, and in this case the Russian Government.

I trust that the key people in the Russian Government will attend very closely to what you just said.

Chairman HAMILTON. Mr. Gilman.

CONCERNS ABOUT RUSSIAN FOREIGN POLICY

Mr. GILMAN. Thank you, Mr. Chairman.

I want to welcome Ambassador Talbott back to our committee once again. We thank you for your extensive testimony. Our foreign policy goals in Russia and the Newly Independent States of the former Soviet Union include not just efforts to support economic reforms but, as we all recognize, to support political reform as well.

To my mind, a very important part of our political reform efforts with regard to Russia is the encouragement and recognition of the Russian people and government that their future peace and prosperity will best be achieved by working to build a better Russia, not by following those old worn out nationalist goals, to seek it through domination of their neighbors.

A number of us are increasingly concerned by reports that seem to indicate that we are failing in that important area. We hear more frequently these days from Moscow that Russia must be considered the first among equals as regards to the Newly Independent States.

The Russian Foreign and Defense Ministries allude to a need for a sphere of influence for Russia in those states. Top officials in the Yeltsin government have been speaking of regaining their natural markets in the other Newly Independent States; of protecting the human rights of the large ethnic Russian populations in those states; of the need to arrive at a dual citizenship agreement with those states covering such ethnic Russian groups; and now of the possibility of using a future "rapid deployment force" to intervene in the defense of the rights of ethnic Russians in the other Newly Independent States.

Such statements by themselves might not be adequate grounds for concern. The indications that elements the Russian military, were involved in last year's near collapse of the Republic of Georgia, however, as well as the Russian's 14th Army's continuing open defiance of the State of Moldova's sovereignty to lend weight to their words.

Mr. Ambassador, I hope that we are carefully looking at these statements and activities. Although Russia is quite obviously the major successor State of the Soviet Union, it is not the only successor state as we all know. America has a great many friends in the Newly Independent States, all of whom are relying on us to use keen judgment in discerning whether our current policies will succeed in persuading Russia to look to the future, not to the past.

Mr. Ambassador, I would like you to comment on these matters to which I have just referred; and certainly we need to discuss today the prospects for economic reform in Russia. That is a vital topic that we are all concerned about.

At the same time, we do need to know whether our concern over economic reform is not distracting our attention from the equally important issue, the kind of Russia that is going to emerge in their times of trouble.

If you would comment.

REDEFINITION OF RUSSIAN FOREIGN POLICY UNDERWAY

Ambassador TALBOTT. The most economical comment I could make, I think, would be to agree with every nuance of what you said. You have summarized many of our own concerns. But I think you want to hear just a tad more than that from me.

President Clinton, when he was in Moscow, gave a speech at the Ostankino television station in which he made what I think is the key point in this regard: Russia has an opportunity, which comes along occasionally in the history of a nation, to redefine itself. That means redefining its statehood, redefining what Russian-ness means, and redefining its own greatness.

The way President Clinton put it, is, that Russia basically has a choice, a choice that it has not yet clearly made. Either it can define greatness and statehood in an old way, that is a way that harks back to its imperialist past, or it can define greatness in a new way that takes into account the realities of the world in the late 20th and, we hope, early 21st Century, that is in a way that not only respects the independence of other countries but that emphasizes cooperation with them and integration with the world community as a whole.

We are, of course, well aware of the debate that is going on within Russia over just this question. We have followed all of the statements that you referred to and more. And we have often used our many channels of communications with the Russians to follow up in fairly contentious terms on some of what we have heard.

U.S. DOES NOT ACCEPT RUSSIAN SPHERE OF INFLUENCE

Let me just say what the issue of principle here is on the points of rhetoric you have mentioned. We do not accept the principle that Russia has a sphere of influence that allows it to behave outside of its own borders in a way that either trammels the independence of those states or that violates principles of international law and behavior.

We are not even willing to accept the implications of the phrase "near abroad" which is a phrase that the Russians often use, as you know, to describe the 14 other Republics of the former Soviet Union. That is a phrase that connotes that there are two categories of other states: There are those where Russia has special rights, and then there is the rest of the world.

We think all the states that have emerged from the former Soviet Union deserve full respect and a chance to develop their own independence.

Chairman HAMILTON. Will the gentleman yield?

The President's statement in Russia, as I recall, at that town hall meeting, seemed to concede a Russian sphere of influence when he talked about comparing Russia's involvement in some of the New Independent States with U.S. actions in Panama and Granada. The implication of that statement by the President seemed to me to almost concede this sphere of influence.

You just said a moment ago, in response to Mr. Gilman, that we do not believe in such a concept as the Russian sphere of influence.

How do you explain the President's statement?

Ambassador TALBOTT. I think that the inference that you just suggested may have been there in some people's minds; but it was not the President's implication.

I am very familiar with the President's thinking on this. I take my guidance from him. I assure you that the point I am underscoring here—namely that the United States does not recognize and does not consider acceptable the notion of a Russian sphere of influence—very much comes from the President himself.

ASSESSING THE RUSSIAN FOREIGN POLICY RECORD

While I do not want for a moment Mr. Gilman to under estimate the importance of words, particularly words when they come from ministers of the Russian Government, whether it is the Foreign Minister or the Defense Minister or whoever; words matter in that part of the world. But actions matter, too.

I would just like to ask you to consider, alongside of the rhetoric, the record of the past year. As I mentioned in my opening statement, that record has had some dark spots as well as some bright spots. You quite properly identified one those as being Georgia.

There is no question that Russian military units were part of the problem in Georgia, particularly last summer, and in their support of the Abkhazian secessionists. However, subsequent to that, Russia has played a role at the invitation of Chairman Shevardnadze to keep the Georgian State together in dealing with the Gamsakhurdia forces.

So we have seen examples in Georgia of Russia both as part of the problem and part of the solution. There is no question which we hope will auger for the future.

RUSSIAN ARMED FORCES IN THE BALTIC STATES

In 1992, on the eve of this administration coming into office, there were about 120,000 Russian armed forces in the three Baltic states. Today there are zero in Lithuania. There are about 12,500 in Latvia and 2,500 in Estonia. But in both of those countries, too, the objective is to get the number down to zero.

The United States has been following very closely the delicate, but I think quite promising, negotiations that have been going on between Russia and those two Baltic States to bring about the complete elimination of Russian forces there.

Mr. GILMAN. Is there a date when they will be withdrawing?

Ambassador TALBOTT. We hope so. Russia has tabled a proposal to be out by the end of August this year. There is one additional agreement. There is an ABM, antiballistic radar facility at Skrunda in Latvia. The Russian Government is arguing that it should be allowed to keep some personnel there somewhat longer.

I think it is fair to say that it has been agreed in principle that Russian forces will be completely out of both of those states in the near future. Considerable progress has been made on that score with the United States playing quite an important good office role, by the way.

RUSSIA AGREES TO RESPECT UKRAINE'S BORDER

The other point I wanted to make about the states bordering Russia has to do with Ukraine. If you will permit me to echo a point that I made in my opening statement, the trilateral agreement that was announced in Moscow is very important in terms of nuclear nonproliferation; in fact, I would argue it is one of the most significant diplomatic breakthroughs in a long time. But it is also significant in what it says about Russia's willingness to live within its own borders. Russia not only has agreed to compensate Ukraine for the uranium in the warheads of those weapons, it has also agreed to respect Ukraine's border. That is an extremely sensitive and controversial point given Russian ethnic separatist forces in the Crimea, and a very, very provocative irresponsible resolution claiming parts of Ukrainian territory for Russia by the old Soviet-era parliament that now is out of business in Moscow.

LEVEL OF SUPPORT FOR YELTSIN

Mr. GILMAN. Thank you.

With the Chairman's permission, I have one additional question.

There are frequent reports in the media that President Yeltsin is now losing popularity and the support of the Russian people. What is your reading of his support? If he were to be replaced, who would be the replacement?

Ambassador TALBOTT. If I can find a 10-foot pole I would not touch the second of those questions, please somebody hand it to me. I do not want to engage in hypothetical speculation about developments in Russian politics. I understand the thrust of your question. It is a good question, and I think the best answer from me is to decline to answer it. I hope you will permit me to do that.

On Boris Yeltsin's popularity, I think there is no question that the Russian leadership as a whole has suffered somewhat in the eyes of the Russian people over the past year because of the phenomenon that we saw so dramatically illustrated by the results of the December 12 election: that a substantial number of Russians felt that not only did they not have a stake in reform, not only were they not benefiting from reform, but they were suffering hardships.

RECONSTITUTING THE RUSSIAN GOVERNMENT

They were more afraid of the future because of the reformist course in which their government was embarked.

What you see happening right now, including in these personnel changes in the Russian Government and the attempts to put together the proper committee structures and that kind of thing in the new Russian Parliament, is an attempt by the Russian Government as a whole, legislative and executive, to address that concern.

So that 2½ years from now when the Russian people go back to the polls, there will be a critical mass of support for reform.

I was traveling with Vice President Gore when he visited President Yeltsin 2 or 3 days after the election. I can tell you that President Yeltsin was very emphatic on just this point. He clearly heard the wake-up call of December 12. He knows that things are going to have to change. The question now is, can the reformers and the government redefine reform in a way that will not fall into the trap that the chairman so vividly spoke to a moment ago, but that will be more responsive to the needs of the people.

Mr. GILMAN. Thank you, Mr. Ambassador.

CONTRADICTIONARY STATEMENTS ON WITHDRAWAL FROM BALTICS

Chairman HAMILTON. Before going to Mr. Lantos, let me just say that the Foreign Minister said the other day that Russia should not withdraw its troops from regions which have been in the sphere of Russian interests for centuries and that Russia would not withdraw its remaining 16,000 to 17,000 troops from Latvia and Estonia. I understand he then later made a statement indicating they might withdraw.

Your view is that Russian foreign policy today is to get those troops out?

Ambassador TALBOTT. Yes, sir, and I would say this. The first statements attributed to Mr. Kozyrev that you are referring to were based on press accounts. We paid close attention to them in the government, I assure you. I thought Mr. Kozyrev's prompt and somewhat reassuring clarification was welcome.

We have every reason to believe that Russia fully intends to continue to come to a quick and satisfactory conclusion of these negotiations with Latvia and Estonia and get its troops out.

Chairman HAMILTON. Mr. Lantos.

TRAGEDY IN SARAJEVO

Mr. LANTOS. Thank you, Mr. Chairman.

Welcome, Mr. Ambassador. Let me congratulate you for having been designated as Deputy Secretary of State. I could not think of a better choice in terms of intellectual capabilities and access to the President. I look forward to a very successful tenure by you in that most important position.

Let me also say that since you will have responsibility for the full spectrum of our foreign policy along with our Secretary of State, before I come to Russia—although my time is very limited—I want to pause for a moment of silence for the 6 children in Sarajevo who were killed while frolicking in the snow. These 6 children were buried on a snowy hillside above the city yesterday, joining the over 200,000 men, women and children who have innocently lost their lives in this tragedy.

We all know who is responsible. We all know how totally failed the previous administration's policy was with respect to Yugoslavia, how the great European powers failed totally. But I must admit that this administration has not provided nearly the degree of improvement in our policy toward Yugoslavia that many of us had hoped, and I think this needs to be stated at the outset.

This is the beginning of a new year. You are the highest-ranking official to appear before us in a long time and I think it is important for you to understand that there are many of us in the Congress and millions in the country who continue to watch with anguish and agony what is going on in Yugoslavia.

AID LEVELS DEEMED INADEQUATE

Now to Russia. I think the President deserves an enormous amount of credit for a most successful visit to NATO, Prague and Russia, and you as his principal advisor on matters relating to that area should share in that credit. I think most of your basic calls have been correct and your call of sticking by Yeltsin has also been correct.

I must say that your initial reaction to the elections when you said that they will need more therapy and less shock, was a correct statement and I have not been impressed by your recent attempt to sort of walk away from it.

Let me also say that I find it somewhat hypocritical and unctuous on the part of many of my colleagues, particularly in the other body, to expect a degree of discipline from Russia, where tens of millions of people are destitute, that the United States certainly has not shown under infinitely more favorable circumstances. A country which is unprepared to increase a gas tax by 4 cents is not in a position to lecture to tens of millions of starving and destitute people of the former Soviet Union, and every time I hear this, my stomach turns.

Let me say that one of the reasons the Russians haven't done so well and one of the reasons the elections have gone so disastrously is because the package of \$28 billion that the West collectively promised the Russians has not been delivered. The best estimate we have is that \$5 billion of the \$29 billion has been delivered, and some of that in unusable form. So I think this rather arrogant approach to this former super power totally misses the point.

I also must say that if, in fact, wage and price controls will come in Russia, as I predict that they will, we need to understand that economically they are in a state of war. During the Second World War, wage and price controls were both necessary and successful in the United States. So I don't think that setting perfect picture free enterprise, as the goal that Yeltsin needs to reach within the next 17 days, reflects anything but a lack of understanding of Russian reality.

The hope I have is that the West, which has a combined gross domestic product, including Japan of \$14 trillion, will be able to give one-tenth of 1 percent of that during the coming year to Russia, and you can count on my vote to support your request because you are on the right track.

I want to salute Ambassador Simons, who is also on the right track. You are doing the best job possible under the most difficult circumstances.

THE CASE FOR THE EXPANSION OF NATO

I do have one small bit of divergence from your approach, and that relates to the question of Partnership for Peace and the expansion of NATO. Our administration unfortunately on this issue has

fallen into a very serious trap, and I hope before long you will work your way out of it.

Those of us who have been supporters of NATO, enthusiastic and strong supporters of NATO, have argued from day one that NATO is a defensive alliance with zero offensive intentions vis-a-vis Russia. Now in yielding to the pressure initially generated by Zhirinovsky, we are fundamentally saying, "We don't want to irritate the Russians by opening the door to the Czech Republic, Poland, Hungary and possibly Slovakia to join NATO." That is a very serious mistake.

I do not think that any of these countries are ready today to join NATO, and I did not advocate and do not advocate their immediate admission, but I think it was a serious mistake not to spell out the criteria that they need to meet to be admitted into NATO.

The acceptance of the underlying Zhirinovsky notion that NATO is an offensive alliance which is threatening to Russia and its enlargement is an aggressive move is a fundamental foreign policy mistake which better be corrected fast. It is like addressing a little child who doesn't want to take a bath late in the evening and says "You make me take a bath because you hate me." You need to change that assumption and you have to tell that child, "No I want you to take a bath because you are dirty. That is why I want you to take a bath."

The important thing in the expansion of NATO is not just that you expand. The important thing is stability in Europe, which is very much in Russia's interest—it is very much in the Ukraine's interest. It is very much in the interest of all the countries concerned. It is also in the interest of strengthening the internal democratic forces within these countries.

There are profound dangers in the upcoming elections in many of these countries. We have already seen in Poland that the election went the wrong way. We are likely to see very similar phenomena in other countries. Not allowing them into NATO because we feel that Yeltsin will be threatened and blackmailed by Zhirinovsky, who is insisting that NATO is an aggressive alliance, is a very serious mistake.

If I may ask one more question: It is now very well established, I take it, that Zhirinovsky was supported by the KGB financially and otherwise not too many years ago. I would like you to comment on the validity of the report that Zhirinovsky's success at the polls in terms of the financing of his campaign was the result of Iraqi transfers of funds to Zhirinovsky's coffers.

Ambassador TALBOTT. Thank you for all parts of your statement. I do appreciate your warm words at the beginning.

Let me just say on the four words that I have uttered, which has caused perhaps the most furor over the last couple of months—

Mr. LANTOS. I liked them.

ZHIRINOVSKY AND THE DECISION ON NATO

Ambassador TALBOTT. I know you did. The press has spent time reinterpreting and looking for indications of walking backwards, forwards or sideways on them. All that I have said with regard to those four words is that my boss, my President, said it even better

when he talked about more reform, more support as an even better bumper sticker.

Mr. LANTOS. Also less shock. Don't walk away from that.

Ambassador TALBOTT. I have not. In fact yesterday in discussion with your colleagues in the Senate, I spent some time playing out the image or the metaphor of what happens when you attach electrodes to a body politic and put a lot of voltage through that body politic. If you inflict too much pain, the body politic will kick back against reform.

It is that which I had in mind using the phrase less shock. Let me move to the very important subject that you have put before us here. You will not be surprised if I do not on this occasion—and I suspect not on occasions coming up soon—want to correct the mistake that you see in our policy.

I would like to correct what I think is a misimpression on your part about how the policy came about and then address the merits of the issue. The administration made a decision on what proposal to take to NATO before Mr. Zhirinovsky was a household word. We have been aware of his existence going back to when he did very well in the 1991 Presidential elections, but there was no Zhirinovsky factor that we had identified in September and October when we were working through the decision on how to proceed with NATO.

So by no stretch of the imagination were we yielding to pressure from Zhirinovsky or any other citizen of the Russian Federation.

Mr. LANTOS. So it was a self-generated mistake?

NEED TO DEFINE NATO'S POST-COLD WAR MISSION

Ambassador TALBOTT. It was a self-generated, good idea, the merits of which I have tried to persuade you. There were two issues: One, what to do about NATO itself? Should NATO be expanded in the future and if so under what terms and with what new membership?

The second issue was if we are not going to instantly expand NATO, what should we do in the meantime to take account of the fact the cold war is over and we ought to keep it that way, but that there are new opportunities and security threats in Europe, so what mechanism could be put in place to deal with those?

On the first score, the issue of membership quite properly should be resolved once the question of the mission for NATO in the post-cold war era is decided. So there was, for reasons that I think were and remain very sound, a reluctance to rush into the question of membership until we had a clear idea of what the mission for the alliance should be.

There was a range of considerations that led us to hold off on a course which is recommended to us by many wise people on the outside as well as some on the inside of the administration, and that is to establish a procedure whereby specific countries could be put on some kind of fast track for early membership in NATO. Those considerations featured first and foremost our sense of our own national interest, which includes the prerogatives of the U.S. Congress.

Before we are going to expand the membership of NATO from the 16-member states that now make it up, we have to think long

and hard, including in close consultation with all of you and with the Senate on under what circumstances we are prepared to extend American military guarantees, including the American nuclear umbrella, to those countries.

Mr. LANTOS. May I stop you on that, because I have heard this before, but it doesn't persuade me because it seems to me—let's take an absurd hypothetical. Suppose that the Czech Republic is attacked from the East, militarily attacked from the East. There is no doubt in my mind that NATO would come to its defense and the likelihood of the Czech Republic not being attacked would be much greater if the Czech Republic would be a member of NATO.

So you really create instability and uncertainty and the temptation to would-be aggressors. You do not diminish the responsibility of NATO to act.

NEED FOR INCLUSIVE SECURITY POLICY

Ambassador TALBOTT. Since that consideration wasn't persuasive, let me move to a couple of others and see if I do any better.

Mr. LANTOS. Am I persuading you?

Ambassador TALBOTT. I have heard the argument before, although not as forcefully put as you just did. Obviously we have to look at a whole range of considerations, another of which was the interests and the desires of our allies. This needed to be worked through the Councils of NATO itself where there are a variety of different views.

Whatever we do with regard to the future of NATO has to take account of the evolving situation within individual countries including the Visegrad Four which are the most often-mentioned candidates for early admission and the overall security picture in Europe itself.

Let me concentrate on that point because it goes to the Russian factor as well as to the Ukrainian factor which I think has tended to be left out of this debate. If we were to adopt a course that said, early in 1994, led by the United States, NATO was going to expand the alliance and draw a new demarcation line, the line that now exists between the Federal Republic of Germany and Poland and move that line to the East so that it would be between Poland and Byelorussia, we would be reinforcing one of the key elements of the cold war security order, namely the division of Europe.

What we think is vital here is to take advantage of whatever opportunity we have to move away from divisions and create maximum opportunity for integration and that means integration of the Russian Federation, Ukraine and the other countries that have emerged from the former Soviet Union.

In other words, we have to strike a balance between the core mission of NATO, and that is being prepared for the worst, and also whatever opportunity we have to bring about the best. What that meant in practical terms was adopting an open-door inclusive approach to a post-cold war security order so that we cannot pre-judge how events are going to evolve in the future.

This goes back to my comment about a crystal ball. We of course all have worst-case scenarios in mind. You just alluded to one even though you didn't identify the attacker in that case. It would be the height of folly I think to base policy for today on a worst-case as-

sumption about tomorrow and inadvertently and perversely increase the chances that the worst case would come about because of the way that would have a impact on the great debate going on in Russia, which can be characterized in many ways, Mr. Lantos, but one way, it is a replay of the debate between the Westernizers and the Slavophiles of the 19th Century. That struggle is not over yet. There is no question as to how we want it to come out.

THE UKRAINE FACTOR

Now, the second part of our decision, that is basically the rationale for not proceeding with fast-track admission for the Visegrad Four. In parenthesis, let me say something about the Ukraine. This debate was being played out during a critical period not only in the internal Ukrainian debate over its future as a nuclear weapons state or a nonnuclear weapons state, but also during a critical period of the United States attempting to bring that debate to a happy conclusion, which I believe we did a week ago Friday.

Had the United States led the charge within NATO to expand NATO last fall and if the headlines had been that NATO is going to add four new states—Poland being one of them and Ukraine emphatically not being one of them—I think that would have greatly exacerbated anxieties in Ukraine about its own security and about whether it was going to be left out in the cold with its big neighbor to the North and that could have tipped the debate with Ukraine in the wrong direction.

Partnership for Peace is I think a very promising mechanism for getting us through this transitional period. In my opening remarks I made the case that Partnership for Peace can put us in a position of being able to respond both to the best case and to the worst case in the future.

ZHIRINOVSKY'S FUNDING

Mr. LANTOS. What about the Zhirinovsky funding?

Ambassador TALBOTT. Can I get back to you on that? I have no information on that. Depending on the nature of the source of information that I have it may be necessary to get back to you in a private session.

[The following was subsequently submitted for the record:]

We have no hard evidence that Vladimir Zhirinovsky has received money or other support from Saddam Hussein.

While visiting Iraq during the Gulf War, Zhirinovsky praised Saddam Hussein and his anti-American policies. In Russia, Zhirinovsky rarely refers to Saddam, but when he does, his praise is effusive.

Russian political figures have made charges that Zhirinovsky has received support from Iraq; we believe that private and governmental investigations are underway.

Chairman HAMILTON. I will call members in order of arrival.

Mr. Bereuter wants to defer for a moment. Mr. Fingerhut will be the next Democrat, the next Republican by order of their appearance after the beginning of the hearing is Mr. Royce.

RUSSIAN INTERVENTION

Mr. ROYCE. Thank you, Mr. Chairman.

Ambassador Talbott, you said testifying in the Senate Foreign Relations Committee in September 93, Russia should neither assert

nor exercise any special role or prerogatives that would be inconsistent with the independent sovereignty and territorial integrity of any other state.

We have made our position on this question clear in dialog at all levels with Russia as well as with other newly Independent States. If Russia conducts a policy in violation of the U.N. charter of international law we would reevaluate our assistance program for Russia. Now at the time you were applauded by members of this side of the aisle for telegraphing that signal to Russia. We felt it important to clarify to the Russian leadership that the United States will not endorse the unilateral application of a Russian Monroe doctrine or violation of the sovereignty of other NIS countries.

I would like you to reflect for a minute and comment maybe on the article from Friday's *Washington Post*, Steven Rosenfeld's article entitled "Permission for Kremlin Intervention," and contrast your view with this view.

"In Moscow, Bill Clinton pretty much handed off to Russia the task of policing the unrest in the border lands that formerly were part of the Soviet Union. Boris Yeltsin had asked the U.N. for just such a grant of special powers. Clinton enunciated a kind of Clinton doctrine, one applying not to restrictive standards for American intervention, but to permissive standards for Russian intervention.

"He characterized Russia's involvement in Georgia where in fact the Russian Army first contributed to and then exploited the local government's duress as 'destabilizing.' He went on to liken Russian involvement in such operations to American involvement in Panama and Grenada and other places near our area." Those are his words.

That sounds like near abroad to me. That sounds like the very words Zhirinovsky used. I would like some clarification from you as to what is meant by those terms. In point of fact, it sounds like a 180-degree reversal in policy.

U.S. DOES NOT RECOGNIZE RUSSIAN SPHERE OF INFLUENCE

Ambassador TALBOTT. I assure you it is not. I am going to echo a couple of points that I made in response to Congressman Gilman earlier.

Quite the opposite of the way that article interpreted what happened in Moscow, I can assure you that President Clinton used his several encounters with President Yeltsin to reinforce the objective and the principle that I have stressed here today, and that is that the United States does not recognize a Russian sphere of influence beyond the borders of Russia itself.

Since President Monroe was one of our Presidents, we feel we have something of a copyright on the use of his name and the doctrine associated with it. We certainly do not recognize any Russian version of the Monroe Doctrine in that region.

PEACEKEEPING ACTIVITIES BY RUSSIAN FORCES

With regard to the issue of peacekeeping by Russian forces outside Russia's own borders, our position has been consistent and it has been the following: It is acceptable from our standpoint for

Russian forces to be involved in such operations only if several conditions are met.

One, that they be in the country involved at the invitation of the leadership of that country, as indeed they were in the case of the Gamsakhurdia civil war or rebellion against Shevardnadze's leadership in Georgia.

Second, that Russian peacekeeping activities within the Commonwealth of Independent States take place under the umbrella, with the blessing of, and if possible, with the participation of the international community in the form either of the CSCE or the United Nations. That is a principle that we have been pushing very hard.

In the CSCE, we are engaged with the Russians and other countries on how to deal with the conflict of Nagorno-Karabakh and the Transcaucasus. So our policy, including as enunciated by President Clinton in discussions with President Yeltsin, was exactly the opposite of the inference that you referred to there.

DELAYS IN NUNN-LUGAR IMPLEMENTATION

Mr. ROYCE. If I could follow up, perhaps it was an unfortunate choice of words that Russia has its army engaged now in Georgia and Azerbaijan, Moldavia, and Tajikistan.

I think this is going back to your early testimony, some question in terms of Estonia and Latvia as to the meaning of the question about whether Russia is going to pull its troops out.

With all due respect, many of us listened to that broadcast. We know that in the Kaliningrad area near the Baltics, they have increased the number of Russian troops.

I am just explaining to you that there are mixed messages.

In closing, let me quote from the DOD publication "Soviet Military Power" in terms of what some of us have observed: "1993 military orders are expected to be significantly higher than 1992," they say. "Since overall GNP has dropped significantly in Russia in the last few years, the overall military since 1991 has actually increased."

The former Soviet Union has more strategic nuclear weapons than the United States in terms of the number of launchers for ICBMs and submarine-launched ballistic missiles. It continues to increase survivability and operational flexibility of its forces by increasing road-mobile SS-25's, rail mobile SS-24's, and other types of ICBMs, by deploying ballistic missile-equipped nuclear submarines equipped with long-range SLBM's and high target-hitting accuracy, and by improving the capability of strategic bombers."

Now, while that is proceeding, moneys voted over 2 years ago by the U.S. Congress for military conversion and the securing and dismantling and safe disposal of weapons of mass destruction remain largely unspent.

So in terms of the greater question of how this relationship is evolving, in foreign policy, with Russia, I would like your response, if I could, to the fact of a military buildup at the same time that the money set aside for the dismantling is not being spent.

Ambassador TALBOTT. The principal funds that you are referring to there, Congressman, are those available under the Nunn-Lugar legislation which, in fact, I think is one of the most important in-

struments available to this government to pursue its own national interest. It is certainly the case that we were slow in spending those funds initially for some period of time, and for very good reasons, for reasons that you as a Member of Congress and your constituents would totally approve of.

That is, that we wanted to make sure that the money wasn't spent until we were sure it was spent for the right things, which advanced our national security interests—namely the safe, secure dismantlement of Soviet-era nuclear weapons which were due for destruction under the terms of arms control agreements.

In order for Nunn-Lugar to go forward, there needed to be agreements with the various countries involved—not just Russia itself, but Ukraine, Kazakhstan and Belarus as well. I think we will succeed in large measure, because of the strenuous exertions of Secretary Christopher, Secretary Aspin, and Vice President Gore.

We have had a series of breakthroughs with regard to the necessary umbrella and implementing agreements for Nunn-Lugar over the past several months and that money is beginning to flow at a very appropriate and promising rate.

The important thing to stress here is that we are finishing up an important and potentially dangerous piece of old business from the cold war; namely, American funds are being used to take down and put completely out of action Soviets missiles which were aimed at the United States.

So I think our record is strong and getting stronger there. I would be happy to provide you more detail.

[The information appears in appendix 3.]

Chairman HAMILTON. Mr. Fingerhut.

JUSTIFICATION FOR ASSISTANCE TO RUSSIA

Mr. FINGERHUT. Thank you, Mr. Chairman.

Ambassador Talbott, you have been appropriately and extravagantly praised here this morning by my colleagues. I have the privilege of knowing your father and he deserves to be equally, extravagantly praised. He is one of the leading business people and philanthropists and environmentalists in my district, and to put an Ohio twist on the phrase, the Buckeye doesn't fall far from the tree. I know he is proud of you and I am sure it is vice versa.

Let me ask three questions and then given the format here, let you weave your answers however you would like. In some sense, all are follow-ups to questions that have already been asked, but I would like a little more detail if you could.

On the subject of aid to Russia, we know that we are going to be faced with the question again this year. I was happy to support the request last year, but then like all Members of Congress found myself explaining and to some extent defending that decision throughout my district.

One year later, what would you like us to cite to our constituents as the primary success that has come from our efforts thus far with respect to our economic aid and what would you like me to tell them in my town meetings that they will see next year if we renew the aid?

TIMETABLE FOR EXPANSION OF NATO

The second and third questions relate to the question of NATO. I must confess to having many of the same thoughts, though I could never put them nearly as eloquently as Mr. Lantos has, as I watched the news reports of the initiative known as the Partnership for Peace, of which I understand you to be the primary author.

In your response, you made clear that this is the United States managing a process leading to the expansion of NATO. One of the questions raised has a lot to do with the nature of the common defense commitments that NATO makes. It has been raised in the media frequently that the military integration process is, in fact, one that requires some substantial thought.

Could you give me some sense of what you think is a reasonable timetable for placing the militaries that were previously adversaries on the same page and in the same thought process so that should we choose to allow admission to NATO we would be able to do so?

NATO AND THE WAR IN BOSNIA

Finally on the question of Bosnia as it relates to NATO, isn't it really the case that the adequacy of NATO and the future of NATO is more at risk because of its inability to deal with the question of fighting in the former Yugoslavia than it is with its decision as to when to expand its membership?

Ambassador TALBOTT. Thank you and thanks for the kind words from my hometown.

SUCSESSES OF U.S. ASSISTANCE PROGRAMS

On how to report to your constituents on how their money has been spent over the past year and will continue to be spent for some time, I think it is important for all of us to understand, particularly as we look to deliberations that we will have over our proposal for the fiscal year 1995 foreign assistance accounts, the sizable sums are already out there doing good work.

I will cite a couple of those. In many cases, these are only just beginning to come into play and will have an effect for quite a few years into the future. I would stress the following as illustrative success stories, certainly ones that we are very proud of, and I think that have affected materially and positively Russian politics and economics.

I referred to privatization. About 40 percent of the Russian economy is now in private hands and the United States has provided a great deal in the way of technical assistance to entrepreneurs, set up enterprise funds, provided venture capital in order to help that economy make the transition from a command to a market system.

I feel that exchanges are one of the most important things that we can do.

Over 6,000 people from all of the 12 new Independent States have come to the United States for training and education. In some cases they are here for 6 weeks, in some cases for a couple of years. Where possible, of course, we try to target this program more on young people. This is a way of dealing with one of the most fundamental problems that Russia and the other states have to cope

with, that they need to change their whole economic and political culture.

They know that and one way to do it is to get their people here to see our system, in all of its aspects, how it really works. This is a way for us to kind of help them reprogram the software of their system. The Peace Corps has more than 100 volunteers on 2-year stints in eight of the new Independent States and has been doing very good work in that regard. We have been helping bankers get started.

We have also had a number of programs through the Export-Import Bank and OPIC that not only help Russia but help American companies to do business in Russia. Wherever possible, we try to look for ways of making sure that the American economy can benefit from our attempt to support economic reform in Russia.

We said throughout the discussion on the fiscal year 1994 budget last year, including in this setting, that calendar 1993 was an exceptional year; we were asking for a lot of money.

We came back to the well several times. We asked for a \$2.5 billion program and we said that this was not going to be an annual event at least in terms of that magnitude.

While the President was in Moscow, he forecast what the administration's request for fiscal year 1995 is going to be for reform support in the New Independent States, and the figure he cited is \$900 million, a figure we think will allow us to continue most parts of our cooperation with Russia and the other New Independent States.

By the way, another important feature—during 1993, we targeted a disproportionate amount of what we were asking for on the Russian Federation itself because of the acute political and economic crisis there.

About two-thirds of what we asked for last year went to Russia. We are going to try to trend that more in the direction of a 50/50 split between what goes to the Russian Federation and what goes to the 11 states.

One more thing: The Russian leadership not only understands the reason for us coming down substantially in fiscal year 1995 and what we will be asking in the way of foreign aid; they want us to. They feel very ambivalent because of their sense of themselves as a great power being the beneficiaries of traditional foreign aid.

They would rather have the engagement in their economy be through business involvement in the private sector and also through what the international financial institutions can do. That is why I said in my opening statement that we saw particularly the fiscal year 1994 assistance program as being a way of priming the pump for business sector involvement of the kind the Vice President has worked so hard to develop and what the IFIs can do if the Russian economy continues on a reformist track.

IMPLEMENTATION OF PARTNERSHIP FOR PEACE

On NATO, when I traveled to the Supreme Allied Headquarters in Belgium a couple of weeks ago with Secretary Christopher, we went to see the building that is already ready to go that will be a headquarters basically for the Partnership for Peace. President Clinton and our military and political colleagues in NATO are mov-

ing very fast to get teams out to all of the countries that might want to sign up and explain to them what can be done starting virtually now.

We are hoping to have joint exercises of the kind that I think will both symbolically and substantively give meaning to the Partnership for Peace underway later this year. So we intend to do everything we can to attach real meaning to this idea and this program as quickly as possible and have been gratified to find a lot of enthusiasm and receptivity on the part of potential Partners for Peace.

NATO AND YUGOSLAVIA

On the horror and tragedy in Yugoslavia, all I can say in response to your point and to Mr. Lantos' point is the following: I am sure that the debate will continue for many, many years over who was to blame for this catastrophe falling on the people of Europe. I think what is perhaps more useful to recognize now is a kind of a structural reason why this happened. We had a security order in Europe but it was geared for the cold war.

The security order in Europe was intended to prevent World War III. It was intended to prevent the Soviet Union and the Warsaw Pact from pouring into Western Europe, and it did that.

NATO worked spectacularly. It has been said that it is the most successful collective defense alliance in history, but it was not equipped to deal with the post-cold war threats to the security of Europe which included eruption of ethnic hatred and the breakdown of states that were emerging from totalitarianism. So there was no mechanism for us to deal with the former Yugoslavia.

Mr. LANTOS. Would the gentleman yield?

It was not the structure that was missing, but the political will that was missing. I don't think many people will buy the structural deficiency. It was the political will that was lacking by the Europeans and by us. That is what brought about this tragedy.

Ambassador TALBOTT. Would you accept not just in a spirit of compromise, but also for identifying the problem in a way that will give us some hope of solving it in the not-too-distant future that the points are related? There could have been more political will, Mr. Lantos, if there had been a mechanism available to the political leaders.

RUSSIAN REACTION TO AIR STRIKES IN BOSNIA

Chairman HAMILTON. May I interject a question here on Bosnia?

NATO came out and reaffirmed its earlier commitment with respect to air strikes in Bosnia. What is the Russian reaction to that and would Russia try to exercise its veto power in the U.N. Security Council to block the use of air strikes?

Ambassador TALBOTT. Has it done so?

Chairman HAMILTON. Would it?

Ambassador TALBOTT. I don't know if it would do so. There is no question that the issue of the former Yugoslavia, Bosnia, and more to the point, Serbia has a special resonance in Russian domestic politics, a special nostalgia I would even say because of many Russians' feeling of historical and national kinship with the Serbian people.

The United States nonetheless has been able to work, I think quite successfully, with the Russian Government over the past year and certainly President Clinton consulted with President Yeltsin on this whole issue when he was there. But I am not in a position to look into the future and guess what will happen next, although I do know that the appropriate members of the Department of State, Assistant Secretary Oxman and our Ambassador to NATO, Bob Hunter will be conducting a series of hearings on this and related subjects.

Chairman HAMILTON. The Russian Parliament the other day passed a measure, did it not, opposing the expansion of the use of force in the former Yugoslavia?

Ambassador TALBOTT. The Russian Parliament—it is not just the Russian Parliament.

Chairman HAMILTON. Didn't they pass a resolution?

Ambassador TALBOTT. I am not sure.

Chairman HAMILTON. The Duma passed a resolution yesterday—

Ambassador TALBOTT. My colleague describes it as a sense of the Duma, a phrase we will be hearing a lot of in the future. At the outset of my attempt to respond, there is no question that Russia as a government and the Russian people are going to have a lot of trouble with use of force against the Serbs. That is something that we will have to contend with as we press ahead.

Chairman HAMILTON. Mr. Bereuter.

SUPPORT FOR POLICY ON EXPANSION OF NATO

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Ambassador, welcome. I have tried the catch up with your testimony because I had to step out and missed part of your oral statement. I think that the Partnership for Peace approach has a lot to commend it and I endorse your effort in that respect. It is not bold, but it is a way of providing differentiated treatment for countries to move into NATO.

I think it dramatically increases our leverage to assure that nations who wish to enter NATO will have transparency in military budgets, that the military will be under civilian control, and the fact they move toward democratic reforms. If we are ever going to be partners with Central European nations as a part of NATO, we have to have interoperability of our military forces, and we are far from having that today.

Hopefully as you deepen NATO and deepen the Partnership for Peace effort, they can move toward those goals at their own speed.

I do think that NATO had structural problems in addition perhaps to lack of will on the part of the Europeans to cope with the problems that came after the disintegration of the Warsaw Pact. We have combined joint task forces, as well as an out-of-area commitment by NATO. I think those changes should give assurance that not only will we come to the rescue against, for example, an invasion of Czechoslovakia, but we will have the capacity to do it.

I would say, picking up Mr. Lantos's example, if it is obvious that we will come to the rescue of the Czechoslovakia Republic, if they were invaded from the East I think it would be equally obvious to

would-be aggressors. I would hope that the Partnership for Peace effort will get wide support in the Congress.

It is the kind of effort that I suppose certainly good Americans and Americans with all kinds of experience and intellectual capacity can disagree on. But it is also the kind of policy where critics can shoot from the hip. The most intemperate people are the journalists who need to maintain interest in their syndicated column on the kind of intemperate remarks they occasionally make.

I think it is an important issue and I will watch for its aggressive unfolding.

GREEK PROPOSAL FOR BALKANS TREATY

I would like to ask two questions. One is your reaction, if you have one at this point, to a proposal we heard from a distinguished Greek political leader that it is time for a treaty in the southern Balkans which will assure the inviolability of the existing boundaries involving Albania, Bulgaria, Macedonia by whatever name, Greece, et cetera?

POLICY TOWARD UKRAINE

My second question relates to Ukraine. We have had an article in the paper this morning supposedly about the details of a classified report from the CIA regarding the disintegration and difficulties in the Ukraine.

Does the administration have a policy for supporting the political stability or reassembling political stability in the Ukraine in view of the declining economic situation there?

Whether or not you believe that report, I think it is obvious that things are not going well in the Ukraine and that we have not focused much attention on the former Soviet Republic. The reintegration of Ukraine with Russia into some sort of successor to the Soviet Union is not in our best interest, nor in the best interest of the Ukrainian people.

How can we deepen and intensify that relationship especially now that we have this trilateral agreement that at least the President has agreed to?

Ambassador TALBOTT. All three Presidents have agreed to.

Thank you. I appreciate obviously on behalf of the administration your words with regard to the Partnership for Peace. We are going to work very hard to make sure that you feel vindicated in your support for this program.

I very much regret ever having to appeal to bureaucracies in declining to answer a question, but I am not sufficiently familiar with the Greek proposal that you refer to and it is out of my area of current responsibility.

If the Senate permits me to move on to my next post, I will not be able to use that excuse the next time you put that question to me. We can get a response from the Bureau of European Affairs.

SITUATION IN UKRAINE

The Ukraine is very much part of my area and I am glad to have the chance to respond to your question, although I am sure you will

understand that I am not going to do so with reference to the reported CIA views on the subject.

That clearly—if there was such a report it was not intended for public consumption or use.

I can certainly speak to the issues. The point that my colleagues and I who have worked the issue of U.S.-Ukraine relations and Ukrainian security concerns over the past year have made to our Ukrainian friends and counterparts many times is the following: Ukraine has a number of reasons to worry quite legitimately about its national security. It is a New Independent State.

It is a newborn country, but with a rich historical past and with every reason to aspire to not only surviving, but thriving in the next century, but there are threats to its security. The greatest threat to its security and indeed to its survival as a state is its economy.

Its economy is in a state approaching meltdown, and I choose those words carefully. The good news here is that the Ukrainian leadership recognizes that and I think is serious about doing something about it. In fact, my own feeling is that one reason that President Kravchuk took the bold breakthrough step that he did in signing the trilateral accord with Presidents Clinton and Yeltsin a week ago Friday was because he realized that not only were the Soviet era nuclear weapons on Ukrainian territory a diminishing asset, not only were they of dubious utility in defending Ukraine's security, but they were a hindrance to Ukraine's ability to turn to the outside world and get the kind of support that the outside world must provide if Ukraine is to make it.

He decided basically to clear that troublesome bit of old business off the agenda and prove to the international community that Ukraine is capable of living up to the first and most important agreement it made once it achieved its independence, and that was signing the Lisbon protocol in which it promised to become a non-nuclear weapon state.

That was part of his political calculation and we believe not only was he right, but that the international community as a whole should do everything it can to make sure that he is vindicated in that courageous step because it is very tough for him politically inside of Ukraine.

However, it is not simply a matter of Ukraine doing the right thing on nuclear weapons. For Ukraine to really be able to benefit from the large amounts of money that could flow into Ukraine from both private sector and from the international financial institutions, it needs to do some basic things in its economy.

It has essentially a Soviet-era economy. It lags behind the Russian economy in terms of reform, troubled as Russian economic reform is right now, but to shift to the good news again, I think that we are seeing signs that the Ukraine leadership is prepared to get serious about putting in place the kind of economic reforms particularly in the area of privatization that would make it possible for the IFIs and for the Western companies to be of some help.

As an example of that, there is a senior Ukrainian delegation led by Mr. Schpek, one of their most important reformist ministers, in Washington right now. I met with him yesterday.

Chairman Hamilton, if I am not mistaken, you have agreed to meet with the Ukrainian delegation yourself later this week. I hope you will see fit to reinforce the message that we are giving them, which is quite harmonious with the one we are giving to the Russians which is, if they will do the right things in terms of internal reform, we will be with them and so will the international community.

Chairman HAMILTON. Mr. McCloskey.

SITUATION IN BOSNIA

Mr. MCCLOSKEY. Thank you, Mr. Chairman. I want to note that the committee is honored to have in the audience today Dr. Christian Schwarz-Schilling, a prominent member of the German Bundestag and I might say a leader in German foreign affairs.

Chairman HAMILTON. We are pleased to have you with us. Thank you for attending. Thank you very much Mr. McCloskey.

Mr. MCCLOSKEY. I also want to commend Mr. Talbott on his new position. I am sure I am not alone in the Nation, speaking as an individual, in that for years I have been awed by your intellect and your performance on so many things, but in all candor I would have to identify myself in just about every way with the eloquent statements and concerns of Mr. Lantos, who also has tremendous goodwill for you.

I hope when the historical record is written that your reputation for wisdom and leadership will equal the outstanding reputation of your intellect and the preparation for your position. I really haven't changed my mind much with respect to some of my concerns about Mr. Christopher, and I say that in goodwill.

I was pleased reading the *New York Times* today to see that yesterday in Paris he told the French that the U.S. Government was not interested in becoming a party to forcing an unjust partition in Bosnia. I think he is to be commended for saying that because that partition will not work. It will be an ongoing disaster in Bosnia and the Balkans.

In the same story by Elaine Sciolino, I might note I am concerned by President Clinton emphasizing that civil war and peace won't come to the Balkans until the parties stop killing each other.

As obvious a truism as that may be on its face, there are a lot more problems and complexities involved, the overwhelming one being that Serbian slaughter of civilians is going on and this is a war of international aggression and an ongoing case of genocide.

That being said, I think there is a general impression that the West, including the United States, is all over the lot on Bosnian policy, everyone pointing fingers at each other, I am for air strikes, but you have to pull the trigger.

It is floating somewhere around Boutros-Ghali, with an invitation for the Russians to come in. If it is up to the Russians, I don't know at what point there would be resolution to Serbian slaughter.

As we know, in the last week or two, Mr. Talbott, the French, the British, the Canadians, and others, maybe the Spaniards are talking about pulling out of Sarajevo and Bosnia; Douglas Hurd and others in the British Government are saying they are going to go because it is getting out of control and U.N. forces and humanitarian forces are in danger.

I understand that. If and when that occurs, would there be a strong U.S. push, real leadership to lift the arms embargo. That has very serious humanitarian and Article 51 concerns, if you will. You cannot in essence leave a people to be undefended, unaided, a prohibition on self-defense, when they are in that horrible position.

Are we going to have a position on that, and overall, as Tom mentioned with the six kids in Sarajevo and one or more with their heads blown off, when is there going to be real leadership all around to get this stopped?

Ambassador TALBOTT. I think really the only appropriate response I can make, Congressman, is to say that I have listened attentively to everything that I have heard here this morning especially so on the subject of Bosnia and the former Yugoslavia. While this is not part of my area of responsibility within the U.S. Government, and I think that that really does not make me the most appropriate person to—

Mr. MCCLOSKEY. That borders and I say this in goodwill, that borders on being disingenuous. Your expertise and where you are with State and access to the President belies the fact that you are well qualified to speak to this. You are one of our key major leaders and you are doing everything to maintain and sustain that position.

Ambassador TALBOTT. I take everything you are saying as in the best possible will as indeed what I heard from Congressman Lantos earlier.

I would defend my reluctance and indeed my refusal to give you an authoritative statement on U.S. policy toward Bosnia now or in the near future precisely because I take the question so seriously. I think that every nuance of what the appropriate officials of our Government from the President down say on this subject is studied for indications of a change in policy, an indication of what we would or would not do under certain circumstances, and I don't think I would be serving my President or this committee well if I were to plunge into that thicket.

What I am doing is taking on board everything that I am hearing. When Secretary Christopher did me the great honor of asking me to serve as his deputy, I reacted with some ambivalence and as it were the sober or melancholy side of my ambivalence was when I realized which I did in a nanosecond that this job would require me to be directly and responsibly involved in U.S. policy toward Yugoslavia.

Of all the items on the menu awaiting me in this new job, there is none that I have focused on more than that already. When I come before the Senate Foreign Relations Committee to testify as a nominee for that position, I will be prepared to say some things on the subject which will have been worked through very carefully within the government and perhaps when I come back before this committee in another capacity, I will not have to be evasive on this.

But it is exactly because it is so important, the stakes are so high, passions are so intense, that I don't think I can do very much more than take on board what you are saying.

Mr. MCCLOSKEY. Thank you.

Chairman HAMILTON. Mr. Hyde.

COMMUNIST INFLUENCE IN POST-SOVIET RUSSIA

Mr. HYDE. Thank you, Mr. Chairman.

Ambassador Talbott, I read with great interest Henry Kissinger's article in this morning's Post. It made me think a little more strategically than I normally do because it discusses an article you wrote in January 1990 on the big picture vis-a-vis the cold war and pointed out that it should have been the task of our diplomacy to ease Soviet fears, many of which were quite legitimate, and that had we been more cooperative rather than resistant, the cold war might have been over sooner.

In other words, the so-called doves were right all along, as you concluded, and that, had it not been the West's policy, it was not the West's policy that brought about the Soviet collapse but the inherent weakness of the system. And this collapse might have occurred earlier if Western hard-liners had not enabled the Soviet leaders to rally their people on behalf of national security.

Now, if that is true, then we made terrible strategic assessments of what the cold war was all about; and I sure don't want to make any more now that we have moved into the 1990's and we are in a post-cold war atmosphere.

Then I read with some trepidation Jeffrey Sachs' article, who last week resigned as an advisor to the Russian Government because he is concerned. He thinks the Russian Government is going to pursue incorrect and even dangerous policies. "The Communist old guard" to quote him, "has essentially retaken almost all the power positions."

He said "We should continue grassroots programs like student exchanges and technical assistance; but large scale aid, which should have been given before, is now likely to be wasted."

If that is true, is what the Communist old guard needs is a dose of reassurance on our part? Or should we look with some concern at the Russians sending, for example, three submarines to Iran?

Are we wrong? That is my question. What are we to make of Professor Sachs' worry that the old-line Communists have now got all the major power positions and any aid to them is likely to be wasted?

REFORM IS LONG-TERM PROCESS

Ambassador TALBOTT. First of all, I am an admirer of Professor Sachs. I think that he has been an extremely steadfast, determined, and imaginative purveyor of advice to the Russian reformers over the years. I certainly understand his frustration and his exasperation with the recent turn of events and don't particularly want to cast my response in terms of a rebuttal of his position.

But just generally, as I indicated in my opening statement, I think it would be both premature and profoundly wrong to declare defeat and go home in effect. This battle is not over, Congressman. It is going to continue for a very long time. A year from now, there will be a Russian economy. I don't know what the inflation rate in the Russian economy will be. But I do know that because of the very good cooperation that the Clinton administration has with this body that there will be a significant degree of American engage-

ment with the Russian economy and with the Russian political system.

If the government in Russia has abandoned the kind of fiscal and monetary discipline that is necessary to make useful and justifiable our macroeconomic support for the Russian economy through the international financial institutions, then there will not be such support or it will be dramatically scaled back to take account of the realities of the economy.

As Professor Sachs indicated in that same article, of course, our humanitarian assistance should continue, our privatization support, our democracy support, our support for exchanges, et cetera.

RUSSIAN RECORD ON ARMS SALES/NONPROLIFERATION

As for Russian conduct outside of its own borders, whether it is military conduct of the kind that Mr. Royce and Mr. Gilman and I were discussing earlier, or arms sales, there, too, we have to stay engaged. We have to be tough in terms of making sure that our own laws are observed and that we use our influence with Russia to moderate its behavior over time.

We have had quite a bit of success in the area of nonproliferation with Russia over the past year, particularly on what could have been an exceedingly dangerous issue with the Russian Government's sales of ballistic missile rockets to India.

After some very complicated and, at times, suspenseful negotiations, we got the Russian Government to agree to become party to the Missile Technology Control Regime and to stop the sale in question. The reason the Russian Government did that is because it was convinced it was in its own interest to do that; that there was more to be gained from its access to international space launch market and that kind of thing.

We have a lot of work to do with them on Iran. We don't think Russia should be selling any arms whatsoever to Iran. I assure you that issue came up at the summit, and we will continue to pursue it.

Mr. HYDE. Let me say to you, sir, that I could not agree with you more. I think the stakes in Russia are the highest in the world. I think an assist in the transformation of that country into a free-market democracy is incredibly important. If we miss the opportunity to do it and do it right, there will be a price to be paid for many generations to come. The same thing is true with China. I think we have to engage, and we have to do it smartly; we have to do it prudently and shrewdly.

I just get concerned when we have the "stroke them" school of diplomacy in the saddle. For example in North Korea, in order to placate Kim II Sung, we are going to cancel Team Spirit with South Korea. I don't know what kind of signal that sends. But this idea of accommodating them has its limitations.

I never thought that we were wrong in resisting Soviet imperialism as defined by what they did in Cuba, Afghanistan, El Salvador, Nicaragua, Africa, Angola. I don't think they suffered from a need to be reassured. They needed to know the West was not going to keep stepping back as the West did in the 1920's and 1930's to Germany.

But in any event, I just think you have the toughest job in the world, to find that position that will assist in the transformation; and we have a job of selling this back home. It is very hard to sell foreign aid at best, but aid to Russia while she is shipping weapons to the terrorist nations and denying they are terrorist—we sat with the Foreign Affairs Committee of the Soviet parliament a year ago and they denied that Iran was a terrorist country. I know that is not Yeltsin. Those were the other people.

We are with you, believe me. I am. I think this is the most important task for foreign policy that we have. But I am just concerned if we don't see with clearer eyes what is going on. I would like to see the Russians cooperate with the Serbs. We have to get something for what we are doing.

The Russian tolerance of Serbian aggression in Yugoslavia is a little hard to swallow. I know the historical precedents for it. We all have historical reasons for what we do.

You have my sympathy, and you will have my cooperation. I just recognize how tough your job is.

U.S. WILL PURSUE POLICY OF ENGAGEMENT

Ambassador TALBOTT. Thank you, Congressman. I would say since the word "reassurance" figures so prominently in Dr. Kissinger's column this morning and, therefore, in your comments here, it is not the word that I or my colleagues would use to sum up the essence of our strategy toward Russia.

"Engagement" is the word. Engagement involves a combination of incentives to Russia for staying on an integrationist course and, of course, conversely a clear understanding that there will be a price to pay in terms of Russia's own national interest as well as its ability to engage with the outside world if it departs from that course.

I don't see us as "stroking" the Russians. I think the appropriate image rather is of a firm, tough handshake between President Clinton and President Yeltsin. There have been a number of such handshakes over the past year. And what that handshake connotes is an understanding between the two of them that they have several objectives in common but each of them represents his own government that has its own national interests and they are going to diverge, from time to time. And when our interests diverge from Russia's, Russia will hear about it. And that has happened already on quite a few occasions including ones we have discussed here.

Chairman HAMILTON. Mr. Menendez.

PROJECTS FOR ECONOMIC REFORM

Mr. MENENDEZ. Ambassador, let me join in the chorus of voices congratulating you on your nomination and your work to date. I am sure you are going to serve our President well, as well as our country.

Having said that, I would like to ask you, as someone who supported Russian aid last year, and which is not easy for someone who is of Cuban descent to support Russian aid, considering that whole history—I read your whole statement in addition to listening to your testimony. I agree with some of the things in it, but I am concerned about some of the things that were raised. I think words

are very important, so I would like to explore some of those with you.

On page 8, you appropriately, I think, point out that as Russia maps its economic course for the coming years, its leader must also realize that slowing the pace of reform will not ease the social pain of economic transition. You go on to say that gradual reform is the prescription for hyperinflation and economic collapse.

On page 5 you talk about President Yeltsin and Clinton reaching an understanding that President Yeltsin would keep reform going full speed ahead and President Clinton's promise in response that the United States would use its leadership in G-7 to intensify the support for the reforms. Those are statements I clearly can agree with.

Then I go back to page 2 and listen to your comments there where you say that the forces of reform post-December 12 are down but not out. I would like you to analyze for me how far down.

Secondly, going on to the next paragraph that one thing we should take heart in is that this is a democratic process and a democratic institution. My question is, with what underpinnings and with what protections.

The reason I ask those questions, which I might have my own answers to, leads to the ultimate question that, as I listen to your suggestion that bilateral support should not be stopped and, in fact, should continue, my question is: Are we expecting too much of the reformers? Can bilateral support simply overcome actions of the central bank and the central government? Are they sufficient enough to accomplish that because if the multinational support is going to come from the basis of we will follow, our support will follow their reform; but our support is simply going, I would say, to help create reform, it would seem, then the question is: Can that overcome the reactions of the central government and, hence, the importance of how far down are the reformers and what opportunity have roots been given to really take hold here and defend the process that could lead to a successful use of our monies as well as a successful conclusion as they move to the 1996 elections?

FORCES FOR REFORM IN SOME DISARRAY

Ambassador TALBOTT. Let me first try to put a little bit more meaning to the phrase in my prepared testimony that the reformers are down but not out. What I mean by that has to do in part with what you might call the current level of morale among the reformers.

I think we have seen plenty of evidence in the statements made by Messrs. Gaidar and Fyodorov and others and those, of course, in the West who have been so closely associated in their efforts like Professor Sachs that Mr. Hyde referred to earlier.

They are still in some disarray, I would say, as they try to cope with the consequences of the December 12 election which led to a new parliament coming into place in which opponents of reform were going to be well represented and also a shake up in the Russian Government, the executive branch, which is intended, among other things, not only to address the message of December 12 but also to be able to work with the new parliament.

When I say they are not out, what I mean is the following: There are still a lot of reformers in Russia; and there are a lot of reformers in the Russian parliament. They have, numerically, the edge in the upper house of the new parliament. A long-time Yeltsin ally is going to be the speaker of the upper house.

In the lower house, it is almost a 50/50 proposition if you lump together on the one hand the Communists and the so-called agrarians who are their close allies and the grotesquely misnamed liberal democratic party which is headed by Mr. Zhirinovsky.

That latter bloc makes up a little less than 50 percent of the deputies, whereas the reformers have more or less 50 percent themselves with some unpredictable independents somewhere in between.

PROSPECTS FOR THE REFORMERS

Our own feeling is that the reformers have several things going for them. One, they are right. That is, they have a plan, a vision of the future which reflects the real interests of the Russian Nation and the Russian people. They also have the support of the international community, and they must continue to have the support of the international community.

If I could, I would put in a plug at this point for maximum interaction between the U.S. Congress and the new Russian parliament during the period ahead. I think that would be both substantively and symbolically very important to the reformers there.

So, all in all, it gets back to my attempt to reply to some of the more pessimistic and discouraging things that were said earlier. There is reason for concern. There is reason for rethinking the tactics of our policy. But I don't think there is any reason whatsoever for terminal pessimism or defeatism in this regard.

This struggle will go on for a long time. We have to stay with it. As to what the underpinnings for reform are, that really goes to the heart of December 12. There was very good news last April when the Russian people went out and voted in a nationwide referendum including in the support of a proposition that which basically said, do you support the reformist economic course of the Yeltsin government? A positive vote on that meant that there is a lot of support for reform out there.

Somewhere between April 25 and December 12, that support eroded. What the Russian Government is going to try to do now is find ways to shore up that support between now and mid-1996. And we can help with that.

IMPORTANCE OF CONTACTS AT GRASSROOTS LEVEL

That leads to my attempt to answer the last part of your question. Now more than ever we need to work around the country at a grassroots level providing not so much money—this is something that is important for your constituents to understand—we are not just pumping money into the Russian economy here. The quality and effectiveness of our support is not terribly vulnerable to the fluctuations of the inflation rate.

What we are giving them much more is advice, contact with people who are expert in things they want to know about, exchange programs and that kind of thing. We are helping their political

leaders establish parties. We are helping their businesses get up and running. There are some people who think we have already reached this point, but at some point in the not too distant future, the two key themes of what is going on over there and what we are trying to support, democratization and privatization, will be truly irreversible so that the policies of the retrograde, a regressive government in Moscow were there to be such a thing—and we are nowhere near saying that there is such a thing now—would not be able to reverse those trends. And that would, as it were, carry the Russian Federation, as a whole, through a rough period of having a backward government in Moscow.

U.S. IS BROADENING CONTACTS

Mr. MENENDEZ. Are we talking to everybody we should be talking to in Russia?

Ambassador TALBOTT. We are sure trying. There was the misimpression created last year that we were talking only to Boris Yeltsin and his inner circle. I can assure you firsthand that is not true. I personally had 13 or so trips that I made to the area in calendar year 1993. I made an attempt to meet with a lot of representatives of different views. My door to my office here in Washington has always been open to people representing a wide spectrum.

When President Clinton was there a couple of weeks ago, he held a reception at Ambassador Pickering's residence in which there was a very wide spectrum, indeed, basically representatives from all of the parties that are coming into the new parliament.

And I think here again this is where there can be a very useful degree of cooperation between our legislative and executive branch. The more of your colleagues the better who can get over there and meet with those folks and bring them over here.

Mr. MENENDEZ. Thank you very much.

I yield to Mr. Rohrabacher.

CONGRESS WILL LINK AID TO ECONOMIC REFORM

Mr. ROHRABACHER. Thank you very much. It is going to be easy for me to congratulate my Chairman on his tough position on the economic policies because he is not here to receive my congratulations. He doesn't get them very often, but I think that message should be brought home that we are not going to continue shuffling money in the direction of the former Soviet Union, democratic Russia, if they have policies that are going to destroy their own economy. It is ridiculous. It is a waste of our money. We have very limited resources.

So that was a bipartisan warning that was given to you by the Chairman.

I would like to associate myself with the concerns and the frustrations voiced by Congressman Lantos and McCloskey. The fact is that the Balkans has been a real heartache for the American people. I don't believe our policy has been correct. I don't believe it has been structural, but we are not going to go into it.

I will not ramble on like some of my other colleagues.

EVENTS IN GEORGIA

Let me note that I do disagree with you. I hope that some day we will have a chance to, at length, discuss the events in Georgia. I totally disagree with your analysis. Mr. Shevardnadze was brought to power by the coup d'etat of an elected government. Mr. Gamsakhurdia, as quirky as he might have been, was elected by the people.

Mr. Shevardnadze was allied with a group of criminals in Georgia. It was very well known. I visited the area several times. We will have to have a long talk about your analysis of that.

REPORTS OF RUSSIAN-CUBAN BARTER ARRANGEMENT

On to my question. One question I would like to present, and you may answer this for the record rather than answering now, if possible, if you would answer this in writing for Congresswoman Ros-Lehtinen. This is her question, which is that we have been basically conditioning our aid to the former Soviet Union on its not subsidizing Cuba's economy and how closely are we monitoring this. And she would like that answer in writing.

There have been press reports—she suggests, that there are some sort of a barter agreement that has been reached between Russia and Cuba trading Russian oil for sugar and fish, et cetera, from Cuba.

How accurate are these reports?

So if you could, for the record and in writing answer that for Congresswoman Ros-Lehtinen, I would appreciate that.

REPORTS OF RUSSIAN CHEMICAL WEAPONS DEVELOPMENT

Mr. ROHRABACHER. My specific question deals with reports of continued Russian development of chemical weapons which is extremely concerning to the American people.

There have been reports in the United States that several scientists have been arrested and journalists have been arrested for disclosing state secrets and that the state secrets—Mr. Chairman, I want you to know that I complemented your original position. That is on the record. You know we have had to kiss up to the Chairman every now and then. Otherwise I would not get a chance to ask my question except for missing votes on the floor like I am doing now. But these reports are very serious, indeed.

Apparently the dissident scientists who are being arrested and journalists who are being shut up on this are being suppressed with the hammer that they are revealing state secrets. What do you know about this?

Are the Russians continuing to develop binary chemical weapons? And are they, indeed, suppressing information and suppressing dissident scientists and journalists?

Ambassador TALBOTT. Thank you, Congressman.

First, on the issue that you raised in the Chairman's absence but referring to the Chairman's warning with regard to our ability to support Russian reform in the absence of the necessary Russian policies, I just want to underscore, which I am sure you recognize, that your message to me and my message to you are quite in har-

mony and together, I think thus amplified, constitute a message to the Russian Government as well.

So I think it is useful in a bipartisan way that this point is being stressed in this hearing.

GEORGIA

I look forward to a long and, I am sure, interesting and useful conversation with you about Georgia. You are right, we do have a fairly profound disagreement in our assessment about Mr. Gamsakhurdia and Mr. Shevardnadze.

U.S. MONITORING U.S.-CUBAN ECONOMIC ARRANGEMENTS

On Cuba, we will, of course, respond in writing in more detail. But let me just say that we understand and support the objectives of the section 576 of the Foreign Operations Appropriations Act which is intended, quite properly, to make sure that the United States is not indirectly, in some fashion, subsidizing Cuba, that is to make sure that we are not giving money to Russia when Russia is subsidizing the Cuban economy.

President Clinton is obligated by that act to make a determination by April 1. I cannot tell you exactly what the determination will be. I can tell you in specific answer to your question that we are monitoring the situation quite closely including the barter deal that you referred to.

Our judgment today has been that those barter arrangements have been at world prices, that is, it is a commercial transaction. It is not a disguised foreign assistance transaction. We will be back to you and your colleague in greater detail.

Mr. ROHRBACHER. Would you put that in writing to Congresswoman Ros-Lehtinen? She is very concerned about this.

Mr. TALBOTT. Yes. She and several others keep close tabs on that, and we always try to be responsive on that.

[The information follows.]

Russia and Cuba signed an agreement on December 24, 1993 which would trade 2.5 million tons of Russian crude oil for 1 million tons of Cuban sugar. By comparison, in 1993 Russia bartered 4 million tons for 1.5 million tons of sugar.

We understand from the Russian government that the \$380 million in credits for Cuba which were announced in July 1993 had not yet entered into effect as of January 1994, due to "technical problems."

ONGOING U.S.-RUSSIAN DIALOGUE ON CHEMICAL WEAPONS

As to the issue that you raised on chemical weapons, we are, of course, very much familiar with the legal action, the trial that has been brought against the scientist. We have expressed our concern to the Russian Government.

We consider the use of the legal measures to suppress free expression of views, whether from scientists or anybody else, to be a vestige of the Soviet past and obviously not something we want to see continued in the post-Soviet era.

On the issue of chemical weapons, in general, President Yeltsin gave President Clinton quite explicit reassurances on this subject during the summit meeting. This issue is the topic of ongoing dialogue at several levels of our Government, including an open-ended discussion that is being led by my colleague Under Secretary of

State Lynn Davis. We are going to keep that dialogue open until we are completely satisfied that Russia is in compliance with all of its obligations in this regard.

Mr. ROHRBACHER. Mr. Ambassador, just for the record and for you to bring back to our Russian friends, I have been a strong and aggressive supporter of cooperation in the areas of space and technology with our former enemies and now friends in Russia both in this committee and in the Science, Space and Technology Committee where I also sit.

If I am convinced that the Russians are investing large sums of money in order to develop new chemical weapons, my support for any type of economic cooperation, technological cooperation with our former enemies will evaporate immediately.

I put considerable time and effort into trying to create joint space projects with the Russians, et cetera. They should not be using their resources, at a time when we are trying to dismantle our weapons of mass destruction here, which I also support. There is no reason for us to have these in a post-cold war world, such huge numbers of weapons, for us to be dismantling our weapons of mass destruction and for them to be spending a percentage of their money to develop this would be absolutely outrageous and would be totally contrary to the spirit of what we are trying to develop.

Ambassador TALBOTT. That is a very clear and useful statement I think, for many to hear.

Mr. ROHRBACHER. Thank you. As a former journalist gone astray now in politics, I wish you luck in this same journey. Good luck, buddy.

COMMITMENTS MADE BY PRESIDENT CLINTON

Chairman HAMILTON. Mr. Ambassador, we will try to wrap things up here pretty quickly. I want to know all the commitments that President Clinton made on his recent journey. I don't ask you to try to answer that off the cuff.

Members of Congress get nervous when Presidents travel. I want to know every promise and every commitment that President Clinton made during his trip, secret or not secret. I want that in writing. I would like it very quickly, within the next week if it is at all possible. All right, sir?

Ambassador TALBOTT. May I respond very much for the record on that?

We will certainly follow-up in writing, and we will follow-up promptly.

[The information appears in appendix 4.]

Ambassador TALBOTT. I understand at least part of the context of your concern and your question that has to do with the trilateral negotiations between the United States, Russia and Ukraine with regard to the disposition of nuclear weapons that are now in the territory of Ukraine.

I had an opportunity to impress this point in my appearance before your Senate colleagues yesterday, but I think it is appropriate to reiterate it here, that there was absolutely nothing beyond what has appeared on the public record that constituted anything that could be construed as an American commitment with regard to security assurances toward either of those countries.

Chairman HAMILTON. We do not have any kind of NATO commitment to Ukraine?

Ambassador TALBOTT. Absolutely not. The security assurances that are an important part of the trilateral agreement are very much part of the public record. I can review them for you now.

Suffice it to say that they have been on the record since the three Presidents shook hands on the agreement. There was an exchange of confidential correspondence between Presidents Kravchuk and Yeltsin. It is confidential correspondence. I would be happy, privately with you or in executive session with your colleagues, to discuss it. It doesn't come close to what I think you are concerned about.

PROPECTS FOR RATIFICATION OF TRILATERAL ACCORD

Chairman HAMILTON. Yes. OK. I will try to wrap these up quickly.

Do you expect ratification by the Ukraine parliament of the agreement?

Mr. TALBOTT. This is a subject on which I am not sure I can be totally satisfactory in my response. But I hope you will understand the reasons why I cannot.

There is no reference to the issue of ratification or to the institution per se of the Ukrainian parliament in the trilateral accords. That, I think, either frees me from addressing your question head on or, to put it differently, makes it political folly for me to do so.

Chairman HAMILTON. Does that mean it is our analysis and President Kravchuk's analysis that no ratification is necessary?

Ambassador TALBOTT. I would not want to address a question of the internal workings of Ukrainian politics and the complexities of Ukrainian parliamentary and constitutional procedures.

What I will tell you is this: We are confident that President Kravchuk and his government are both willing and able to carry out the commitments that they made in Moscow a week ago Friday.

Chairman HAMILTON. Did President Kravchuk say to you, "I don't need to get ratification"?

Ambassador TALBOTT. President Kravchuk says to us, I am going to handle the Ukrainian domestic policies of this. That is what he said to us. We have confidence that he can do it. We will have more confidence that he can do it if the United States and the international community give him the political and other kind of support that we feel he richly deserves as a result of this act of statesmanship on his part.

Chairman HAMILTON. Do you expect the parliament to vote on this soon?

Ambassador TALBOTT. He has said most explicitly in a telephone conversation with President Clinton, I think it was in December, that it was his intention to submit to the new Ukrainian parliament that will be elected in March, the START One treaty and the Non-Proliferation Treaty and the Lisbon Protocol.

He has said that is his intention, and we have every reason to believe he will do so. That is separate from the question of the trilateral accords.

Chairman HAMILTON. He has not said he is going to submit the trilateral agreement to the parliament?

Ambassador TALBOTT. He said he is going to work the domestic politics of it to make sure that Ukraine keeps the obligation that it made through his signature on several pieces of paper in Moscow a week ago Friday.

RUSSIAN REQUEST FOR U.N. PEACEKEEPERS IN GEORGIA

Chairman HAMILTON. There has been a request, I think, by Russia for a U.N. peacekeeping force in Georgia.

Do we support that?

Ambassador TALBOTT. We are working on that issue very hard, including today. That is a very live issue that I am personally working on myself.

TREND TOWARD AUTHORITARIANISM

Chairman HAMILTON. So I gather we have not made a determination on it at this point.

We had a conversation the other day with Professor Reddaway of George Washington University. He is absolutely convinced—he may have written this in an op-ed piece—about the authoritarian trends in Russia. He lists a number of things that occurred recently that lead him to that conclusion.

Is it your judgment that Russia, on the political side, is heading toward authoritarianism?

Mr. TALBOTT. No. Let me say, before I elaborate on that, that I have a lot of respect for Peter Reddaway. I have looked to him for wisdom on what used to be the Soviet Union since 1968 when I first dealt with him in London. I think the fact that he and I could disagree as profoundly as we do on this issue is an illustration of nothing more than how very complicated this whole situation is. I learned a lot and am guided a lot by what he writes even when I disagree with some of his conclusions.

I think that one reason we, the United States, were right to support President Yeltsin as staunchly as we did last year is because President Yeltsin's guiding principle as he confronted one crisis after another was to always find a way to let the Russian people decide.

He had a showdown with the parliament on March 20, and his way of getting out of that impasse was to declare a referendum on April 25 to let the people decide. That is the essence of democracy. He had a showdown with the parliament that ended tragically and bloodily. It began on September 21 and ended on October 3–4. Once again his answer on how to deal with the impasse was to let the people decide through the December 12 elections.

There is now a parliament in place. Real politics has come to that country. That, I think, is something to be welcomed and supported.

QUESTIONING YELTSIN'S COMMITMENT TO REFORM

Chairman HAMILTON. Do you, in any sense, feel you were misled by Yeltsin?

He was asked in a news conference if the government was going to backtrack on reform, and he said "nyet." It was widely broadcast. Then, shortly after you left Moscow, things have happened that would indicate otherwise.

Do you have any sense that he misled you?

Ambassador TALBOTT. Nyet.

Chairman HAMILTON. Was he fooled?

Ambassador TALBOTT. No. I think what the Russian Government is going to do to reconcile the imperative of continuing with reform with several other imperatives that were cast into pretty stark relief by the results of December 12 is an immensely complicated thing that they are having to work through among themselves.

I don't think it is fruitful for us to be, as it were, commenting, and particularly commenting in a way that suggests as though we are giving them personnel advice, at a time when they are still working it through.

Chairman HAMILTON. You have every confidence in Yeltsin's personal commitment to reform?

Ambassador TALBOTT. Da.

RUSSIAN VIEW ON NEW EUROPEAN SECURITY ARRANGEMENTS

Chairman HAMILTON. Let the record show that is "yes."

On the Partnership for Peace, President Yeltsin has said that Russia is prepared to participate fully in all aspects of it. Then he turns around and says that it would be unacceptable for NATO to offer membership to one eastern state without offering membership to all.

The essence of Partnership for Peace is that that very thing could happen. Isn't he going in two different directions here?

Ambassador TALBOTT. No. He is saying one thing that we welcome and another thing that we disagree with. There are two institutions at issue here. There is the Partnership for Peace which is an issue that is upon us right now, and I mean right now because the North Atlantic Council is moving very briskly to give all of the potential partners for peace a chance to sign up. We hope that Russia will be one of them and that Russia will act along the lines of what President Yeltsin indicated in the statement you just quoted.

The second issue is NATO, the NATO alliance. President Yeltsin's position is that Russia might want to come in some day and that it should come in in a package with all of the other former members of the old Warsaw Pact. That is his view. He is entitled to it. It is not our view.

In fact, it is quite in distinction to our view as expressed by President Clinton on several occasions. We believe that the door to membership for other states that might come into NATO in the future is wide open and that they can come in on an individual basis.

The first question, the timing and quality of Russia's participation in the Partnership for Peace is an issue we must address right now and we hope will be addressed in a favorable way.

The second issue in which we disagree, future membership in NATO, is not one that we have to address right away but we have certainly laid down a clear marker of what our view is and how it differs from his.

INCONSISTENCY IN ADMINISTRATION STATEMENTS NOTED

Chairman HAMILTON. I think the statements of the administration on the Partnership for Peace—which I think is a rather ingenious idea, I support it—but there has been some inconsistency, I think, in the way that it is articulated.

For example, Secretary Aspin said, and I am quoting him directly now: "There are two things that the Partnership for Peace would not provide: The NATO security guarantee and automatic membership at some future date."

Now, the President's formulation is that the Partnership for Peace will ultimately lead to the enlargement of NATO. He has also said, and I think the Chairman of the Joint Chiefs has said, that it is not a question of "whether" but "when."

I don't want to make a big issue of this, but I want to note that there are differences in the way this policy is articulated.

You may or may not want to respond to that. I am not asking you a question. I am just giving you an observation.

STATE DEPARTMENT PERSONNEL CHANGES

A number of members have said to you, and I think very sincerely and very graciously, that they congratulate you on your nomination as the Deputy Secretary of State. I joined in that and wish you well in your confirmation hearings. Of course when you become the Deputy Secretary of State, it is my understanding that you are going to continue to act as the chief advisor to the President on Russian policy.

Is that correct?

Ambassador TALBOTT. My direct responsibility is to the Secretary of State and will continue to be. In that capacity, I also advise the President.

Chairman HAMILTON. So you are really taking on two responsibilities here. You will continue your responsibility as the Special Advisor to the Secretary of State with respect to Russia, and you will also be the Deputy with, obviously, much broader responsibilities?

Ambassador TALBOTT. I will maintain a high degree of interest and a high degree of involvement in the Clinton administration's policy toward the former Soviet Union.

At the same time, because of the other responsibilities that I will be taking on, I will not obviously work on these issues in quite the same way and to the same extent on a day-to-day basis. I will certainly be succeeded in the office that I now hold.

Chairman HAMILTON. Who will have responsibilities for the day-to-day operations of the job that you are now doing?

Ambassador TALBOTT. Jim Collins, who is currently our Coordinator for Regional Affairs. I think you know him.

BROADENING CONTACTS BEYOND PRESIDENT YELTSIN

Chairman HAMILTON. I have one other question: You are, are you not, in the process of broadening your contacts beyond President Yeltsin? You made quite an effort in that regard, I presume, on the recent trip.

Can you elaborate on that a little bit?

Mr. TALBOTT. Yes. I think, Mr. Chairman, you may have been out of the room at the time that I--

Chairman HAMILTON. Did you already answer that question?

Ambassador TALBOTT. No. I want to say this with you very much in the room. It relates to what I see as the potential role for your committee as well as the U.S. Congress.

Now that there is a parliament in place, we are going to step up our involvement with it.

Let me just, in parenthesis here, clarify the misimpression that we did not have fairly broad contacts with the old parliament, problematic as that institution was.

Ambassador Pickering and his predecessors and their colleagues in the Embassy in Moscow had extensive contacts on a daily basis right across the spectrum there, all the way up to Ruskoi and Khasbulatov.

But we will intensify our contacts with the new parliament, and we hope very much that you and your fellow Chairmen of the appropriate committees will be very much involved in a similar effort. I think the new parliament would benefit greatly from interaction with the U.S. Congress.

RUSSIAN FOREIGN POLICY GOALS

Chairman HAMILTON. I have one other request for you to respond to in writing. We have had you a long time, and I am sure you have other things to do.

Would you provide me with your assessment of the major goals of Russian foreign policy today and in what respect they are different from the old Soviet foreign policy?

I want you to touch specifically on things like NATO and Eastern Europe, Asia, Western Europe, the United States and the Partnership for Peace.

I would appreciate a response to that, although that does not have the same urgency as my former request with respect to the commitments made by President Clinton during his recent trip.

[The information appears in appendix 5.]

Chairman HAMILTON. We thank you for your appearance. I know that members are very appreciative, as I am, for your testimony.

We stand adjourned.

[Whereupon, at 1:45 p.m., the committee was adjourned.]

PREPARED STATEMENT OF HON. STROBE TALBOTT

Secretary Christopher has charged me with advising him on our policy toward all twelve of the New Independent States that have emerged from the former Soviet Union. But with your permission, Mr. Chairman, I would like today to concentrate on one of them: the Russian Federation. That is because recent events have raised acute questions about what is happening there, what will happen next, and what we should be doing in response.

Also, as by far the largest and most powerful of the NIS, Russia has a high degree of influence on its neighbors -- for better or for worse. On his recent trip to the area, President Clinton met with the leaders of Ukraine and Belarus. They reiterated what we have heard many times from them and from virtually everyone else in the region: the fate of reform in Russia will be a major factor in determining the fate of reform in neighboring states.

The last several months have been, in several respects, a time of troubles for Russian reform. I last testified before your Committee on October 6. The Russian White House, seat of the old, Soviet-era parliament, was a charred ruin. President Yeltsin had just appeared on television to denounce the armed mobs who had attacked government buildings but also to lament that all Russians had been seared by the hot breath of fratricide.

In the nearly four months that have passed since then, Russian political life has continued to be tumultuous, although fortunately without violence. Opposition to reform has taken on a different manifestation. A substantial number of ultranationalist and communist deputies won seats in the December 12 elections to the new parliament.

The mood of the Russian people, as reflected in those election results, is heavy with resentment of present realities, with fear of the future, and, accordingly, with some nostalgia for the past. That is an unhealthy combination of humors to be coursing through the body politic of any nation. It is therefore no surprise that many reformers in Russia are worried and demoralized. Last week, two prominent reformers, Yegor Gaidar and Boris Fyodorov, left the government, calling into question whether the ministers who remain will be willing, or able, to carry out President Yeltsin's vow to President Clinton

that he will stay the course with economic reform. Nor is it a surprise that many in the West are concerned that what has sometimes been called the Second Russian Revolution may have failed, that counter-revolution has already set in, that Russian reform is a lost cause.

That is not our view. President Clinton and Secretary Christopher draw another lesson from the events of the past two months. That lesson is fortified by their own recent visits to Russia. In the Administration view, the Russian election, its aftermath that is now unfolding in the Parliament and in shakeups within the executive branch, the tensions we felt in Moscow two weeks ago -- all that underscores what have been the four central premises of our policy from the beginning of this Administration:

-- First, there is a titanic struggle underway in Russia over the future of that country.

-- Second, we, the United States, have a huge stake in the outcome of that struggle.

-- Third, we can have some effect on what that outcome will be.

-- Fourth, this is a long-term process, and it will require patience and steadiness on our part.

Mr. Chairman, as we have discussed in my previous appearances before you, when we discuss the struggle over Russia's future, we are talking about not just years but decades -- even a generation or more. It was largely for that reason that two weeks ago President Clinton chose an audience of 700 Russian students to lay out his hopes for Russia's future, which will so greatly affect our own.

As President Clinton stressed in his Moscow speech, Americans want Russia to succeed in its transformation not just for its sake or for Europe's sake but for our own. A stable, democratic, market-oriented Russia, a Russia secure in its own borders and respectful of the borders of others', a Russia integrated rather than contained, will mean fewer U.S. tax dollars spent on defense, a reduced threat from weapons of mass destruction, new markets for U.S. products and a powerful, reliable partner for diplomacy as well as commerce in the 21st century.

Let me add a word about the nearer term: The next two and a half years -- between now and the elections scheduled for mid-1996 -- will be a critical period. The United States cannot be a spectator. We must remain engaged, just as we were engaged this past year. When I say "we," I mean both branches of our government, the Administration and the Congress. We worked together to assemble the series of initiatives last year; we put our taxpayers' money where our nation's interests and principles

were. We set the tone and provided the key ideas for the response from the international community as a whole. American engagement and American leaderships made a difference, and it will continue to make a difference as those programs establish themselves on the ground during the months and years ahead.

Let me now review how we see the state of, and the prospects for, Russian reform in its three principal dimensions: politics, economics and foreign policy.

Building a Democratic Process

The coverage and commentary on Russian politics has tended of late to concentrate on the bad news. That is understandable. The rise of Vladimir Zhirinovskiy's ultranationalist party is a disturbing development, both because of the extreme views its leaders espouse and because it has given the Communists and their allies a chance to position themselves as moderate, reasonable centrists.

Nonetheless, the reformers and the independents who may side with the reformers on key issues are in a rough balance with the opponents of reform in the lower house; they hold a somewhat stronger position in the upper house. That correlation of forces, combined with the strong presidential powers conferred on Boris Yeltsin by the new constitution, means that, overall, the forces of reform, post-December 12, are down but not out.

Perhaps the most important point to stress here, Mr. Chairman, is not so much the relative strength of the different blocs and personalities at the moment, but the process and the institution that are now in place: it is a democratic process and a democratic institution.

Real politics has come to Russia for the first time in nearly a century -- and in many ways, for the first time ever. That, I would suggest, is a development to be welcomed, encouraged and supported. This body, the United States Congress, can be crucial to that support, since it now has a real Russian counterpart with which to interact.

A program of cooperation has already been launched with the new Parliament which will include exchanges of Members and staff, as well as linkages with various organs of the U.S. Congress, such as the Congressional Research Service (CRS). Indeed, next month the Congress will host a small group of Russian Parliamentary staffers and the first delegation from the new Duma with twenty Members. A second group of twenty Russian Parliamentarians will arrive in March. These groups will meet with their Congressional counterparts as well as with administration officials. In addition, the Agency for International Development will work with CRS to assist in establishing an information and policy analysis network for the Russian Parliament. Five million dollars has been set aside for

assistance to the new Parliament. We hope that this Congress will be active in bringing these linkages to life.

The continuing development of democratic mechanisms and habits of civic activity will help to determine whether the reformer will be able to win back more public backing than they could muster on December 12.

With funding from our assistance program, U.S. non-governmental organizations are working to foster the development of democratic institutions in Russia and the other New Independent States in a variety of areas: local governance, rule of law, political processes, and independent media.

In conjunction with our rule-of-law program, the American Bar Association is helping the Russian government in the re-introduction of the trial-by-jury system in nine target regions. This initiative will advance the protection of human rights and the development of an effective and fair criminal justice system.

In the run-up to the December 12th elections in Russia, several American NGOs and PVOs offered assistance and advice to Russian organizations to support free and fair elections. The National Democratic Institute and the International Republican Institute also worked extensively with political parties to help them develop into viable party structures. Both also helped to train poll watchers and to coordinate the international monitoring of the elections that the Russian Government had requested. A conscious effort was made to ensure that all parties had equal access to these services.

It's the Economy

But the principal factor affecting the outcome in 1996 will be the Russian economy. There, too, the picture is mixed. We have cause both for concern and for an intensification of our engagement.

We, like many of you, regret the departure of key reform leaders from the Government and the effect that the new composition of the parliament will have on the future of economic reform in Russia. We are urging the Russian Government, at the highest level, not to slow the pace of reform.

When President Clinton was in Moscow two weeks ago, the principal subject on his agenda with President Yeltsin was the Russian economy. In their discussions, President Yeltsin stressed the good news.

Over one fourth of the labor force is now employed in the private sector. More than three quarters of Russia's small businesses and retail shops are now privately owned. Over 7,000 medium and large enterprises are in private hands. Roughly 55 million Russians own a stake in a private venture. Prices have been freed on more than 90 percent of goods and services. The

old centralized distribution system has been virtually eliminated. The contraction in Russia's economy is slowing. Exports are up, and the inflation rate in December was the lowest since September 1992, (although indications are that inflation is up in January).

Of course, there is still a long way to go. Privatizing firms is only a first step in developing profitable, job-creating enterprises. Production is still falling, and the inflation figures are favorable only in the most relative sense. At 12 percent a month, prices are still doubling every six months.

The Russian leadership understands that it needs to do a better job of meeting the needs and allaying the anxieties of the citizenry. President Clinton got a first-hand sense of those needs and anxieties too, especially when he went for a walk around the city, bought several loaves of bread in a store and talked with people on the streets.

The key to Russia's transition, however, is not simply meeting the population's basic requirements, but reforming the economic systems that serve Russian citizens every day. Similarly, the role for Western donor nations is not to provide Russia with the commodities or funds it lacks, but rather to share Western expertise and skills so that Russians can better provide for these needs themselves and help open up economic opportunities in a new market-oriented environment.

There are two dimensions to our program: bilateral and multilateral. On the first score, we feel -- and President Yeltsin agrees -- that we made a good start in 1993, in terms of both strategy and delivery. Our approach has been to reinforce those trends in Russian political and economic life that together, we believe, constitute the essence of the great transformation underway in that country. They are democratization and privatization. They are, in fact, interlocking; they are mutually reinforcing. The more people work in private enterprise, the more they are likely to participate in the democratic process -- and the more they are likely to vote for candidates who will support economic, as well as political, freedom.

In our bilateral assistance program, we are concentrating our activities on the more rapidly reforming regions of Russia. This strategic approach to assisting Russia's regions should let us help reformers at the local level demonstrate that they can prosper and provide adequate social benefits for those people hit hard by economic dislocation. In this way, we believe these regions can serve as examples to others and magnify the impact of our program.

Support for democratization and privatization figured prominently in the Administration's Vancouver and Tokyo packages of bilateral assistance. The Vancouver package was committed

and is now being implemented with record speed and, we believe, with a high degree of efficiency and effectiveness.

We have worked hard to put in place our core technical assistance programs, and we are moving quickly to expand and build upon these programs with the \$2.5 billion appropriated by Congress for FY 1994. Enterprise funds are being set up for Russia, Central Asia and the Western NIS, and programs to enhance cooperation in health, environment and energy (including upgrading nuclear reactor safety) are underway. As many of these programs are multi-year endeavors, these resources will be disbursed over the next few years. Indeed, technical assistance, by its very nature, must be provided over an extended period to be effective. In the long run, these programs will provide the fundamental building blocks for long-term American engagement in this new market through expanded U.S.-Russian trade and investment.

Now, as we turn our attention to FY '95, we are shifting to the next phase of our program, which is support for trade and investment.

We hope that capital flows from our private sector can play a larger role in supporting economic renewal in Russia. This is a role that President Yeltsin and the reformers understand and encourage.

Vice President Gore has worked closely with Prime Minister Chernomyrdin to begin laying the groundwork for expanded trade and investment. In the last five months, the Gore-Chernomyrdin Commission has moved quickly to break through bottlenecks and bureaucratic inertia. The Commission helped put in place the Export-Import Bank oil and gas financing program, worth up to \$2 billion, and a new Project Incentive Agreement that will broaden financing into other sectors. The Commission has facilitated over \$135 million in OPIC-financed investments and has overseen the ratification of the Double Taxation Treaty, which will provide important protection to U.S. investors. These efforts will create jobs and spur growth in both the U.S. and Russia.

As Secretary Christopher, Secretary Bentsen and others from the Administration have said repeatedly over the past year -- in Congressional testimony, in public statements, and in our dialogue with the Russians themselves -- the big money, the long-term support for Russian reform, will come not from bilateral foreign aid programs, but from the international business community in the form of trade and investment, and from the international financial institutions, in the form of loans to help Russia make the transition from a command to a market economy.

In Moscow two weeks ago, Presidents Yeltsin and Clinton reached an understanding: Mr. Yeltsin vowed that he would keep reform going fullspeed ahead; and Mr. Clinton promised that in response, the U.S. would use its leadership position in the G-7

and the international financial institutions (IFIs) to intensify multilateral support for Russian reform.

President Yeltsin needs to have the confidence that if he continues to press forward on a strong stabilization program that limits government spending, controls the growth in the money supply and curbs inflation, Western support will be swift and substantial. To this end, we are working with our G-7 counterparts to reaffirm and reinforce our earlier commitment. While the level of our support still needs to be geared to the pace of reform, the intensity of collaboration and the timeliness of that measured support could be improved.

With respect to social support, the challenge is not so much one of reconstructing the old social safety net as it is building a new one that supports the emergence of a market economy. The distinction is important. In the Soviet Union, employment was virtually guaranteed. With that employment, the state provided and financed all the necessary social services. However, the Soviet economy was bankrupt with the weight of defense and social spending that was not matched by economic growth in other areas. As Russia restructures its economy to foster new industrial growth, it needs to restructure the system of social support, to provide a comprehensive mechanism of unemployment services (like temporary benefits and job retraining). It also needs to separate activities like health care, housing and education from individual enterprises.

Most of the funding for these efforts can come from redirecting the government's budget away from general subsidies for large state enterprises to programs targeted more narrowly at providing these services to the truly needy. However, there is a role for the G-7 and IFIs in helping to bring about this structural shift. Western countries can provide a great deal of technical assistance in designing social programs to complement the market economy. The World Bank could help in both providing expert advice and some transitional financing as the Russian Federation shifts responsibility for social programs from enterprises to local government.

Our Administration recognized the value of this type of assistance nearly a year ago -- well before the now-famous "wake-up call" of December 12 -- when we proposed the Special Privatization and Restructuring Program. That facility, which was adopted by the G-7 in Tokyo last July, included \$500 million in World Bank financing for the restructuring of social programs in communities where the authorities were breaking up and privatizing huge state enterprises. We plan to work with our G-7 colleagues to broaden and intensify efforts to move forward in this area.

In short, one of the adjustments we have made since December 12 is to give a greater emphasis to international programs that will help the government in Moscow and in many regions of the Russian Federation put in place a viable network

of necessary social services. In that way, when the voters return to the polls in 1996, they will be more likely to give reform the kind of decisive mandate it failed to win on December 12.

But the Russian leadership -- in both the executive and the legislative branches -- must understand the cause-and-effect relationship between internal reform and outside support: our support will follow their reform; it cannot be the other way around.

To open the flow of funds from the IFIs and from the Western private sector, Russia needs to continue to take aggressive steps to stabilize its economy.

Let me be more specific: A healthy market economy -- one that is hospitable to large-scale outside investment and that merits support from the IFIs -- requires a stable currency, which in turn requires fiscal and monetary responsibility.

The trouble, of course, is that keeping the money supply under control often complicates another objective, which is keeping employment rates high. We have had some experience with that dilemma in our own system. It is particularly stark in a transitional economy, especially one that is simultaneously making the transition from a communist system, where full employment was supposed to be guaranteed, to a democracy, in which those who fear losing their jobs can register their anxiety at the polls. That strain, in essence, is what we have seen in Russia this past several months.

Privatization involves closing down inefficient state enterprises, while the shift to market economics, at least initially, brings higher prices. The result is social pain, disruption and fear of the future. If they reach critical mass, those ingredients can explode into a political backlash against reform.

We recognize that reality, and we know that the Russian leadership is focused on precisely that danger right now as a result of December 12. But fiscal and monetary responsibility are not just abstract economic virtues; they, too, constitute a political imperative. They are necessary to combat inflation, which poses a huge political danger in its own right. Inflation, especially if it qualifies for the prefix "hyper," destroys savings, investments, pensions, currency. In Russia, inflation has already eliminated people's life savings, impoverished people on fixed incomes, and eroded the wages, morale and effectiveness of teachers, doctors, police, scientists. While privatization has generated wealth, inflation has driven much of that wealth out of the country, to the safety of western banks. In short, inflation, if it gets out of control, threatens to destroy the economic life of individuals and states alike. Therefore it can topple governments, sometimes with the ugliest and most dangerous of results.

Moreover, as Russia maps its economic course for the coming year, its leaders must also realize that slowing the pace of reform will not ease the social pain of economic transition. In fact, quite the contrary: slowing down is likely to prolong and worsen the pain and increase the threat of even more alarming political developments. Gradual reform is a prescription for hyperinflation and economic collapse.

So if there is a bottom line in the statistics now swirling in the air about the Russian economy, it is the inflation figure. Since last April's referendum, Russia has skirted the abyss of hyperinflation and, to the credit of its leadership, backed away. For its own sake and for the world's, it must keep moving in that direction. Its government and its people must recognize that controlling inflation is the priority objective in protecting the basic welfare of the citizenry and laying the ground for a prosperous future.

The challenge now facing the Yeltsin government and its allies in the new parliament is to keep economic reform going -- which means, first and foremost, to control budget deficits and inflation --while doing more to cushion the adverse impact of reform on vulnerable groups. President Yeltsin and Prime Minister Chernomyrdin understand the importance of controlling inflation, and that even after last week's changes in the government, meeting this challenge will remain a key priority. The challenge now facing us is to do everything we can to help.

At the same time, Mr. Chairman, we will be working to support the cause of economic reform in other NIS as well. A delegation of senior Ukrainian officials is here this week to discuss an expansion of our economic cooperation with Ukraine. We believe it is important for Ukraine to attack the hyperinflation that is ravaging its economy, and to carry out the other necessary market reforms that can bring prosperity to the Ukrainian people. As in the case with Russia, assistance must follow reform if it is to be effectively used.

Our Ukrainian guests are also scheduled to meet with members of Congress. I hope that you will share with them our interest in building a strong U.S.-Ukrainian relationship and supporting the necessary economic transformation. When President Kravchuk visits Washington in the second week of March, we will have another opportunity to explore ways that we can best support Ukrainian reform.

I wish also to draw your attention to the very important step that Kazakhstan is taking in negotiating a Standby Arrangement with the International Monetary Fund. We are confident that the IMF Board will indeed approve the Standby. President Nazarbayev will be here in February. His continued commitment to economic reform is praiseworthy.

Russia and Her Neighbors

Ukraine, Kazakhstan and the other states around Russia's borders need not only internal reform and external help -- they also need a Russian foreign policy that respects their independence. It is a bedrock principle of this Administration's policy that we support the evolution of a Russian state that is free, secure, democratic and prosperous -- and that allows other states to achieve the same goals. As President Clinton put it in Moscow two weeks ago, Russia must demonstrate, particularly to its former colonies that are now fellow New Independent States, that a big neighbor can be a good neighbor.

This redefinition of Russian statehood is, we believe, very much in Russia's interests as well as our own. Russia wants -- and, if it remains on a reformist course, deserves -- to be integrated into the community of free, democratic states. That desire, while not universal in Russia, is nonetheless widely held. It is well represented, we believe, not only in the executive but in the legislative branches of the government, as well as among regional and municipal authorities around the country, in the burgeoning private sector, and at the grass roots.

It is overwhelmingly in Russia's own interest, as well as ours, that the forces advocating and aspiring to integration prevail over other forces that are also much in evidence -- those of extremist nationalism, xenophobia and neo-imperialism.

In his speech in Moscow, President Clinton made this point very clear. "If we are to realize the greatness of Russia in the 21st century," he said, "your nation must be strong democratically and economically. And in this increasingly interconnected world, you must be able to get along together and to get along with, and trade with, your neighbors close at hand and all around the globe."

Russia's integration into the international community involves -- indeed, depends upon -- Russia's acceptance of international standards of conduct outside its own borders. This is not a concession we are asking from Russia; rather, it is an aspiration for Russia that we share with Russia's reformers.

The recent record of Russian foreign policy is, like so much else that we are discussing today, mixed. Russian conduct in several of the neighboring states, particularly in the Transcaucasus, has been troublesome, and it has occasioned some blunt exchanges in our diplomatic dialogue with Moscow.

Still, there have recently been some encouraging developments. The most dramatic is the trilateral agreement among Presidents Clinton, Yeltsin and Kravchuk that will, we all hope, unblock the process of denuclearizing Ukraine and lead to the transfer of all nuclear weapons to Russia for dismantling.

This development is vastly important -- for the cause of global nonproliferation, ~~for the cause of~~ political security and stability in Europe, for U.S. security, for the national interests of Ukraine and for those of Russia as well. The trilateral accord is a testament to President Kravchuk's statesmanship and political courage, but it is also a credit to President Yeltsin. In signing the agreement a week ago Friday in Moscow, he was committing his government to providing Kiev fair compensation for the value of the highly-enriched uranium in the weapons and to a series of important assurances with regard to the security of Ukraine. By extension, those undertakings should be reassuring to other states in the region as well.

If, as we hope he will, President Yeltsin comes to terms soon with Latvia and Estonia on a timetable for the withdrawal of Russian forces from those two states, that, too, will not only be welcome in its own right -- it will also send a calming signal to other states that are understandably wary of Russian intentions, given their historical experience and in light of bellicose statements from various Russian politicians.

Section 577(a) of the FY-94 Foreign Operations Appropriations Act -- the so-called Byrd Amendment -- contains a restriction on assistance for Russia that applies unless the President certifies that either (1) the Government of Russia and the Governments of Latvia and Estonia have established a timetable for withdrawal, and all parties are complying with such timetable, or (2) Russia and the CIS continue to make substantial progress toward withdrawal of the armed forces from Latvia and Estonia. Under the provision, certifications are valid for a period of six months. The President made such a certification on December 6, 1993.

There has been considerable progress in promoting the unconditional and rapid withdrawal of all Russian forces from the Baltic states. At the beginning of 1992, there were about 120,000 Russian troops in the Baltic states. By the end of 1993, all Russian forces had withdrawn from Lithuania. There are only about 12,000 Russian forces left in Latvia and about 2,500 in Estonia.

We continue to work hard to promote Russian troop withdrawals from Estonia and Latvia. We believe that agreements on troop withdrawals from these states are within reach. Russia tabled in November 1993 a proposal to accelerate withdrawal of its forces from Latvia and Estonia by August 31, 1994, under certain conditions. Russia has highlighted the need for withdrawal agreements dealing with the treatment of Russian military personnel departing and staying in these countries. Russia also wants a transitional arrangement that provides for its continued operation of the ballistic missile early warning facility at Skrunda, Latvia for an agreed period of time. (It is our information that all construction has been stopped at the Skrunda radar facility for years.) Latvia and Estonia have now responded to the Russian proposal, and negotiations have been intense in recent weeks.

President Clinton during the Moscow Summit pressed for early resolution of this issue. He and the Secretary have personally engaged their Russian, Latvian, and Estonian counterparts to address this issue on a priority basis. The USG intends to press ahead with other programs that facilitate and encourage the withdrawals. These include a \$160 million program for the construction of housing for demobilizing Russian officers returning from the Baltics and elsewhere. In addition, we have taken an active interest in the treatment of ethnic Russians and other minority communities living in the Baltics.

Let me say a word in this connection about the Partnership For Peace, which is the centerpiece of the initiative that President Clinton has put forward for building a new, post-Cold War security structure in Europe.

The Russian government has vowed to participate actively in the Partnership For Peace. In making that commitment to President Clinton, President Yeltsin was reaffirming, in yet another context, that his government will honor the inviolability of interstate borders, since that principle is explicit in the terms of membership for the Partnership.

We feel that the President's initiative is well suited both to the opportunities of the present moment and to the uncertainty of the future. We do not have a crystal ball, but we do have, in the Partnership For Peace, the next best thing: a flexible mechanism for responding to events in Europe as they unfold. This was a point the President made at every stop on his recent trip to Europe.

When speaking to our Allies in Brussels, the Central European leaders in Prague, and those of the former Soviet Union in Kiev, Moscow and Minsk, President Clinton and Secretary Christopher made clear that we and NATO will continue to be prepared for any contingency, but we are not going to assume the worst. We are not going to base policy today on worst-case assumptions about what tomorrow may bring; we're not going to fall into the trap of the self-fulfilling prophecy.

The message to the Russians is this: Russia itself will have a profound influence on what kind of security structures evolve in Europe -- and, indeed, across Eurasia. If Russia hews to a course of internal reform, respect for its neighbors'

independence, and cooperation with the West, NATO will continue to evolve in the direction of maximum inclusiveness.

If, however, reform in Russia falters, NATO will be there to provide for the Allies' collective defense, as well as to work through the Partnership to promote regional stability with those who remain active participants in developing the closer ties with NATO that the Partnership is designed to foster.

In short, Russia's choice about its own future will affect the future of NATO and PFP. The Partnership, like Russia itself, can go either way. If necessary, it can provide the basis for us and our NATO Allies to expand the bulwark of collective defense against a new threat, should one emerge in the East. Or, if possible, it can serve as a mechanism to help all the nations now emerging from Soviet-style communism eventually attain complete and irreversible integration into the community of prosperous democracies.

We have no doubt where the Russian reformers want to go, and they must have no doubt that as they keep moving in that direction, we are with them.

APPENDIX 1

U.S. BILATERAL ASSISTANCE AND CREDITS FOR THE STATES OF THE FORMER SOVIET UNION (\$ Millions)

	FY 1991	FY 1992	FY 1993	FY 1994	Total
Grant Assistance					
<i>Technical Assistance</i>					
NIS Assistance Account	0	0	417	904	1,321
Supplemental Request	0	0	1,609	0	1,609
Economic Support Funds	5	230 a/	0	0	235
Development Assistance Funds	0	5	5	0	10
PL 480, Farmer-to-Farmer	0	10	10	10	30
Other USG Technical Assistance	0	32	69	63	164
Subtotal	5	277	2,110	977	3,369
<i>Medical Assistance</i>					
Disaster Assistance Funds	5	12	0	0	17
DOD Excess Medical Donations	0	100	106	0	206
Private Donations	31	142	146	45	364
Subtotal	36	254	252	45	587
<i>Food Assistance</i>					
USDA Food Aid	0	293	903	251 b/	1,447
DOD Excess Stock Donations	0	62	42	0	104
Private Donations	0	35	58	15	108
Subtotal	0	390	1,003	266	1,659
<i>Other DOD Assistance</i>					
Transportation Funds	0	100	46	0	146
Disarmament/Non-Proliferation	0	400	400	400	1,200
Subtotal	0	500	446	400	1,346
Total, Grants	41	1,421	3,811	1,688	6,961
Credit Programs (Face Value)					
USDA Export Credit Guarantees c/	1,912	2,567	518	25	5,022
USDA Concessional Food Sales d/	0	0	611	0	611
Eximbank Guarantees	0	119	436	1,500	2,055
OPIC Insurance	0	126	259	1,500	1,885
OPIC Financing	0	0	135	1,000	1,135
Total, Credits	1,912	2,812	1,959	4,025	10,708
TOTAL, GRANTS & CREDITS	1,953	4,233	5,770	5,713	17,669

a/ The \$230 million of ESF allocated for FY 1992 included \$33.8 million of reprogrammed FY 1991 funds.

b/ To date 1/31/94.

c/ 1992-1993 is "registrations"; 1994 is "announced" to date 1/94.

d/ U.S. cost: commodity and transportation.

Note: Total may increase for FY 1994 after consideration of food assistance and CCC credit programs. Total does not include U.S. contributions to international financial institutions, including the Currency Stabilization Fund. DOD excess donations are preliminary estimates based on market value.

U.S. Grant Assistance to the NIS

Cumulative Obligations
as of December 1993

(\$ millions)

	Humanitarian*		Technical**		Total			
	\$m	Rank	\$m	Rank	\$m	Rank	\$/cap	Rank
Arm	288	2	24	4	312	2	95	1
Azer	29	10	2	12	31	11	4	11
Bela	127	4	7	10	134	6	13	6
Geo	225	3	8	9	233	3	43	2
Kazak	66	7	26	3	92	7	6	8
Kyrgyz	124	5	12	5	136	5	32	3
Moldo	61	8	11	6	72	8	17	4
Russ	1470	1	318	1	1788	1	12	7
Tajik	23	11	9	8	32	10	6	9
Turkm	59	9	2	11	61	9	17	5
Ukr	98	6	85	2	183	4	4	10
Uzbek	18	12	10	7	28	12	1	12
Total	2588		591		3179			

*Includes AID, USDA, DOD and private donations of food, medical and other grant humanitarian assistance.

**Does not include nuclear weapons dismantlement ("Nunn-Lugar") programs.

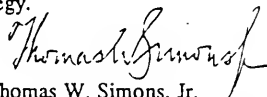
APPENDIX 2

January 14, 1994

The Freedom Support Act in Section 102 provides that the Coordinator of U. S. Assistance to the New Independent States shall be "responsible for designing an overall assistance and economic cooperation strategy for the independent states of the former Soviet Union".

The imperative to move quickly in this vitally important region necessitated prompt action on the basis of best judgment and an interim strategy. At the same time, there remained the need for a carefully considered strategic vision as the basis for validating, refining, streamlining, and more tightly focusing ongoing assistance and economic cooperation activities. The process of developing this strategy reflects the ongoing effort by our whole government to respond effectively to this historic opportunity, and included extensive consultation with agencies and departments involved in providing assistance and economic cooperation.

I approve this Assistance and Economic Cooperation Strategy.



Thomas W. Simons, Jr.
Coordinator of U. S. Assistance
to the New Independent States

UNITED STATES

ASSISTANCE AND ECONOMIC COOPERATION STRATEGY

FOR THE NEW INDEPENDENT STATES

Profound changes continue to sweep the New Independent States of the former Soviet Union. For sheer scale, they are unparalleled in recent history. They touch all institutions — political, economic, military, and social — in differing degrees. They touch all but a few of 300 million human beings. After more than 70 years of revolution and rigidity, Soviet institutions, Soviet practices, Soviet mentalities are deeply anchored in every nation and society of this vast region. Yet they have boldly embarked on change. Most people see the benefits of change; most also feel the pain of disruption. There has been much progress; there are and will continue to be daunting difficulties.

The extreme centralization of the Soviet period has left a hard legacy. It has fueled centrifugal forces which retard the consolidation of modern independent statehood on a democratic basis. Each state must define anew what nationhood means. Leaders with uncertain mandates must struggle with the heavy inheritance from the past as they build new democratic polities, new market economies, new structures to assure security. Peoples whose familiar moorings are fraying or disappearing must determine their destinies among a bewildering variety of old and new options. The potential for instability is high, but the prospects for better futures — more secure, more democratic, more prosperous — are also brighter than ever.

The outcome of the changes underway and the struggles to come is important to the United States. The Cold War is over, but the failure of reform across eleven Eurasian time zones could saddle America with new, unwelcome challenges and new, crippling costs. Only if reform succeeds can we reap benefits worthy of our Cold War sacrifices:

- ◊ consolidation of our improved security;
- ◊ a lasting partnership with Russia and other New Independent States in global problem-solving;
- ◊ new resources for new investment in our own future at home and abroad; and
- ◊ beneficial and mutual access to each other's markets, resources, and expertise for the United States and the twelve new nations.

Only area reformers themselves can determine the outcome. But to benefit from their success, we can and must help them now. The challenge to us is to invest our interest, our energy, and enough resources to make a difference to reform and reformers during this critical period of transition. For the outcome is likely to be determined over the next few years.

GOAL

Our overall goal is clear: We wish to achieve enduring, normal, and productive bilateral relations with each New Independent State, and to encourage such relations among them, and between them and their partners in the world community. We believe that this kind of partnership

will ultimately require stability and prosperity, and international relationships based on mutual recognition of reasonable security interests, normal economic relations, and free movement of people, goods, and ideas. Finally, we believe that the path to stability and prosperity leads through democratic development, including full respect for the basic human rights of citizens, and market reform.

We are therefore committed to assist and encourage reform and reformers who demonstrate in practice their commitment to pursue the struggle for reform. Our assistance and encouragement is part of a larger international, multilateral effort. America cannot and ought not seek to address all areas of need, nor to do everything itself. Similarly, this assistance and economic cooperation strategy is part of a broader U.S. foreign policy effort. It includes diplomacy; reducing levels of strategic and conventional weapons; pursuing non-proliferation; and supporting private-sector initiative. But American assistance to the New Independent States is vital both to the multilateral effort, which it helps mobilize, and to our overall policy success. Targeted at certain key sectors in a time of historic change and challenge, it can make a historic difference.

OBJECTIVES

History shows that broad-based prosperity is best achieved through a market economy, that stability is best achieved through democracy, and that over the long run each is essential to the success of the other. These are internally self-correcting systems which adjust to changing circumstances and needs. That said, however, it is equally true that *each country has to develop the details to reflect local history and conditions*. There is no perfect model.

For the United States, the New Independent States pose unique challenges to our global assistance policy of promoting sustainable development. The New Independent States are not underdeveloped countries, but rather have been misdeveloped and out of sync with international market forces. The challenge is not to develop human and physical basic infrastructure, but to assist the New Independent States in redirecting their resources to support open and participatory political and economic systems. The need is not for a protracted program of economic support, but for strategically targeted support during this critical period of economic and political transition, followed by quick phase out. In this context, the policy of sustainable development — to secure transition to sound and enduring market economic and democratic political systems — is relevant to our economic cooperation program with the New Independent States.

Any realistic economic assistance strategy must be equally concerned with supporting political reform, and with gaining acceptance of the economic and social costs which accompany necessary changes. People need confidence that the new economic and political systems will be enough of an improvement to be worth the price of transition, and that the transition itself is being well managed.

Concern for social costs, however, should not be mistaken for a call for slowing change. Slowing transition will not solve this problem, only delay the time when recovery begins. Indeed, losing sight of the dangers of growing deficits, loose monetary policy and high inflation will only add to personal pain and hardship. Ultimately, only a restructured economy built on productive enterprises producing for open and competitive markets will create the wealth that can finance social benefits. In the near term, what can be done is to help find mechanisms for better targeting social spending on those who need it most, and to help find ways of supplying social services consistent with the new market economy. Reform of social welfare systems will have to be financed by international financial institutions, with some bilateral technical assistance for targeted key elements. Continued humanitarian assistance for regions or sectors under particular stress is also important, both for the assistance provided and the concern which is thus demonstrated.

Our assistance should be aimed at helping reformers in the New Independent States to achieve the following objectives:

Market economic systems.

Economic entities operating within clear and consistently applied rules are able to constantly adjust in ways that keep both them and the economy healthy over time. Public acceptance of a competitive market economy, as well as the market economy's long term success, requires that there be opportunities for new entrants based only on effort and merit, and that there be fair and economically efficient methods of including full environmental and social costs in economic decisions. Macroeconomic stability, microeconomic efficiency (and the legal and regulatory infrastructure required to stimulate and maintain it), and foreign and domestic trade and investment are all essential for a successful market economy. These features provide individuals the opportunity to maximize their talents which is ultimately necessary for personal prosperity and national economic growth.

Enduring governmental systems based on democratic politics.

Systems for selecting governmental leaders and setting policies need to reflect the opinions of society, contain mechanisms to ensure that subsequent desire for change will be honored, and be built upon respect for fundamental human rights. Clear political rules permit management of the inevitable frictions arising from economic and social development and provide losers of political conflict a reason to continue to work within the system. The political, legal and regulatory infrastructure needs to fairly manage and adjudicate legitimate conflicts of interest in society, and to protect civil rights and liberties.

Easing of the human costs associated with the transition.

Sustained public support is essential for successful transition to free markets and democratic governance. This requires that people believe that reform will produce improvements in their social and economic circumstances. It also requires that citizens believe that to the extent possible, the transition is being managed to minimize social and economic costs, and that those suffering distress are being helped.

Attention to environmentally sound growth is an important cross-cutting theme affecting all three objectives. A market economy will remain viable and publicly supported only if it operates on a sustained basis in a way that protects its environment, utilizes resources wisely, and treats people with decency and respect. So too, a country's political system cannot enjoy sustained support unless it deals responsibly with popular concerns. Public concern with the failure of the Soviet system to deal with the health and environmental consequences of bad economic policies directly undermined its legitimacy. So it will be with any successor system: sustained popular support depends on effective political response to issues which the public knows must be dealt with. Indeed, many of the human costs of the transition are greatly increased by the cumulative failures of the previous system, nowhere more evident than in the impact of environmental degradation on firms trying to privatize and modernize, and on public health.

To be truly effective, assistance must be implemented on a short-term basis during the core of the transition period. Just as solutions must be local, so too sustained growth, and therefore prosperity, can only come from private investment in a functioning market economy. Therefore, the move beyond assistance to trade and other forms of economic cooperation should come as rapidly as possible.

MEASURING PROGRESS

Recognizing the truth that assistance can only support and help reformers to make necessary changes, it is essential to consistently measure our programs in terms of effectiveness in providing that help and support. Only if the reforms themselves succeed can we really call our efforts

successful. Appropriate indicators which reflect progress toward overall objectives include the following:

Market economic systems:

- Macroeconomic policies providing a stable monetary and fiscal environment. Indicators include:
 - rate of inflation
 - real interest rates
 - deficit as percentage of GDP
 - prices set by markets
 - currency convertibility
- The extent to which the economy is privately owned and operating free of arbitrary interference by government and/or politicians. Indicators include:
 - the portion of the population which is employed in the private or non-governmental sector
 - the portion of economic output which comes from the private or non-governmental sector
 - the extent of government subsidization of the productive sector
 - the extent of monopoly production of goods and services
- Progress in establishing clear laws and regulations regulating economic activity, so that individuals have a realistic opportunity to start new ventures, and existing ventures can operate efficiently. Indicators include:
 - levels of private investment, both domestic and foreign
 - improved efficiency, reflected in reduced waste discharged into the environment, and improved profitability of enterprises
 - measures of adequacy of banking system, such as efficiency and cost of transactions, and availability of private credit
 - qualitative measure of commercial, bankruptcy, tax, tangible and intellectual property, communications, banking, contracts, and other laws regulating economic activity
 - the rate of new enterprise creation

Enduring governmental systems based on democratic politics:

- Free elections taking place at local and national levels
- Some form of separation of powers at the national level
- News media free of censorship, with diversified ownership, and individuals able to establish new media outlets
- An independent judiciary ensuring impartial arbitration of disputes within society
- Institutional or legal protection of civil rights and liberties
- Effective state institutions capable of performing limited but essential functions of regulation, rule-enforcement, and social support

Easing of the human costs associated with the transition:

- Establishment of social support mechanisms appropriate to market-based democracies
- Stable or declining levels of absolute economic and social distress

Of course, while tracking specific indicators, it is necessary to constantly validate them against the ultimate indicators of successful transition: a growing economy, increased employment, and higher levels of domestic and international trade. At the same time, specific assistance activities need to have their own criteria by which to track their progress. These measure specific results which are achieved by the projects themselves, though always directly contributing to realization of larger objectives.

PROGRAMMING PRINCIPLES

Each activity undertaken needs to be measured by its contribution to achievement of all three objectives, as well as to the goal. Key principles are:

Tangible benefits. Assistance must be directed at achieving broad-based impact beyond capital cities. Emphasis must be on promptly putting core elements of key reforms in place. Significant attention will be given to targeting assistance on rapidly reforming regions in order to encourage local initiative and demonstrate that the transition can produce benefits proportionate to the faster rate of reform.

Lasting impact. Assistance needs to be directed at changes which enable the New Independent States to solve their own problems. Our assistance needs to be short term in duration, but long term in impact. In humanitarian situations, food, medicine and other goods need to be provided in ways that fully support the reform process. Pilot programs have a role where it is likely that successful experience will be broadly utilized.

People-to-People. Seventy years of Communism isolated people from technical skills and attitudes essential for both a market economy and democracy. Experience shows greatest total diffusion and absorption of those skills when done through exchange programs and direct contact with experts working in a community for extended periods.

Partnerships for change. We should be prepared to lead, but need to include as genuine partners the New Independent States themselves, international financial institutions, G-7 allies, and other states and institutions (e.g., the EU). Our resources should be focused on areas in which the United States, as opposed to other bilateral or multilateral donors, has a comparative advantage.

Importance of macroeconomic policies. The benefits of economic assistance programs will be minimal unless accompanied by courageous steps to install and maintain sound macroeconomic — both monetary and fiscal — policies. Bilateral programs must solidly support the efforts of the international financial institutions.

Aid follows reform. In 1993 there was a one-time commitment of extra resources because it was seen as a watershed year in the reform process in Russia. Even those robust levels, however, provide \$10 per capita for the whole NIS. The appropriation level for FY 1994 before the supplement represents \$3 per capita. Given the reality that the results of assistance expenditures are vastly greater in countries which proceed faster with reform, the principle that *aid follows reform* must result in relatively higher levels for those doing the most to help themselves. This approach is also most likely to assist, and focus attention on, the most successful models of transition.

Economic cooperation is essential. Beyond measures setting clear rules for domestic and foreign investors, action is required to remove trade barriers both within the states themselves and also by all of their foreign trading partners. Priority must be given to putting in place all of the normal treaties, agreements and facilities necessary for American firms to trade with and invest in those countries.

OVERALL APPROACH AND REGIONAL PRIORITIES

The twelve New Independent States are best characterized by their diversity. They span half the globe -- eleven time zones -- and represent scores of distinct ethnic groups. Religions, cultures, economic traditions, and languages reflect histories which are as much competitive as cooperative, or even downright hostile. These factors were masked by the monolithic domination of the Soviet Union, but now are clearly visible.

A legacy of Communism is that all twelve countries do have a recent shared history: the single system of political and economic centralization shaped many of the structures and attitudes which now require change. In worldwide terms, they all are developed countries, albeit misdeveloped in respect of many institutions essential for a market economy and democratic politics. Each has a generally healthy, educated, and productive populace, a considerable scientific establishment, a significant industrial base, and a potentially strong agricultural base. Much of the existing infrastructure was developed for purposes other than what is needed for democracy and a market economy. The legacy of pervasive control of all aspects of people's lives remains in the hold-over bureaucracies as well as in the attitudes of people conditioned to accept bureaucratic control. Even so, previous levels of capital investment in people, durable goods for productive sectors, and physical infrastructure have created the basis for significant real growth provided that organizational, legal, and regulatory infrastructure becomes available to foster its efficient use. It is necessary to fully reflect both the underlying diversity and the common overlay in all our thinking and actions.

Based on experience to date, adoption of economic and political reforms is likely to be highly uneven, and may include situations where some elements move ahead rapidly while other elements see no progress. Significant support to governments should be directed at states which embrace fundamental economic and political reforms. Resources will be concentrated in areas which are essential, *i.e.*, without which the objectives cannot be achieved. Those include democracy-building, privatization of the economy, including productive enterprises, land and housing; establishment of basic laws and regulations permitting the private sector to operate without need for subjective governmental action; establishment of clear market signals (primarily world market pricing) which permit rational decisions, and therefore reward reduction in waste of energy and other resources; and de-monopolization of the economy. Where commitment to reform is limited, assistance will be primarily for programs operating outside governmental channels.

Throughout the region, non-governmental organizations will receive funds for initiatives to support the efforts of reformers to establish independent media, democratic politics, an independent judiciary, and transparent government. There will be constant support for programs which increase the capacity of reformers in these states to understand, design, approve, and implement needed economic reforms. These will include exchange and participant training programs, people-to-people types of assistance, and in limited situations, long term advisors, in order to overcome the effects of near total isolation, and to increase the exposure of present and future opinion leaders to Western democratic and free market traditions.

Consistent with this common approach, regional differences require recognition:

RUSSIA

The political, economic and strategic importance of Russia requires that it be treated separately. The outcome of its transition is singularly important to that of its neighbors. Russia itself is a diverse, complex country. Aside from the details of its many autonomous regions and many distinct ethnic populations, Russia has a Pacific Rim dimension as well as a European one. Like the United States, it is a continental power with different attitudes and perspectives on its East Coast and its West. Russia has a proud tradition of scientific, educational and cultural accomplishments. The United States assistance and economic cooperation strategy thus needs to reflect Russia's accomplishments and diversity.

The reform process in Russia is moving ahead across an impressive range of economic and political issues, though of course there are and will continue to be inconsistencies and uneven change, as well as political uncertainties resulting from the magnitude of its concurrent political and economic transitions.

WESTERN NIS

Ukraine and Belarus share a common culture, linguistic family, and geography. The Slavic languages of Ukraine and Belarus are closely related to each other and to Russian. Obviously, these countries are poor in relation to their neighbors in Western Europe (though not in all parts of Eastern Europe), and their infrastructure and capital goods lag in real terms.

The success to date of these countries in establishing their independence, and the many basic institutions of statehood, is often overshadowed by their economic struggles and political uncertainties. In particular, after 70 years of unified Soviet central planning, each faces profound difficulties in creating separate, independent economies. Thus, the pace of transition varies greatly. Likewise, the details of American assistance and economic cooperation are likely to vary from month to month and year to year, at least until reforms solidify as in Moldova.

Moldova, apart from the Baltic states, has the shortest history of any of the New Independent States of belonging to the Soviet Union, having been annexed from Romania by Stalin in 1940. Indigenous Moldovans are ethnic Romanians, and speak the Romanian language, but there is a large Russian and Ukrainian population, and a basis for healthy multicultural pluralism. The country's strides in economic reform, along with the Transdnister conflict, demonstrate the complex mix of opportunities and problems present in the region.

The profound and lasting effect of the Chernobyl nuclear disaster upon Ukraine and Belarus is hard to overstate; it was a defining event which is indelibly seared into public consciousness, and affects all other issues.

CENTRAL ASIAN REPUBLICS

Central Asia is truly a crossroads between Europe and Asia. The five independent countries of Central Asia share common historical, cultural, religious, and political traditions, though of course there are intra-regional differences as well. Their history owes as much to neighbors to the south (Iran) and east (Mongolia and especially China) as to the north. Each country has substantial numbers of Russian nationals living within its borders and with a history of disproportionate economic and political power. Geographic isolation from countries with a tradition of democratic governments and strong market economies compounds the process of developing these institutions, and presents major economic difficulties.

The five countries have a combined population of fifty-five million people. Especially when compared to the Third World, these too are mis-developed rather than underdeveloped economies. Several possess substantial natural resource wealth, development of which could bring large inward capital investment and subsequent cash flow. All must make major, long term efforts to build institutions necessary for sustained, broad-based economic growth based on bringing the mass of their people into the economically productive mainstream, rather than using natural resource wealth to subsidize outdated policies.

Proximity to the turbulence in Afghanistan and Iran compounds the difficulty of developing new political institutions: fear of extremists and distrust of leaders drawn from groups other than the individual's own tribe, clan or region, tends to produce real or stated reluctance to trust participatory forms of government. Proximity to China and the newly industrialized countries of the Pacific Rim also carries the potential to view their recent economic progress as basis to delay systemic reforms, particularly in the political sphere. While no one can object to looking for appropriate lessons from different places, dynamic economic growth in central Asia is virtually impossible without significant change from the Soviet era political system.

American private investment in natural resource development can proceed even in the absence of fundamental reform, and could contribute to opening these economies to fresh ideas; as noted, of course, it can also give political leaders the means with which to continue flawed economic systems. Particularly in this region, assistance levels in many countries are likely to be drastically less than realistic levels of private investment.

CAUCASUS

It is hard to see beyond the ethnic and political turmoil engulfing this region. These countries inevitably serve as an economic link between Russia and the Middle East, and perhaps between Central Asia and Europe. Their trading tradition could serve them and their neighbors very well, now that they are able to operate outside the boundaries of the former Soviet Union.

It is doubtful, however, that meaningful economic and political progress is possible until some success has been achieved in establishing basic political stability, and acceptance of each other as independent, sovereign nations. In terms of American bilateral assistance, certainly, humanitarian needs are likely to absorb virtually all available resources. Most remaining funds will probably have to move through non-governmental channels.

If political stability can be achieved, all three countries will have major reconstruction needs. In Georgia and Armenia they can be met only from multilateral resources; Azerbaijan is more capable of financing its own reconstruction. While the United States may begin developmental assistance as soon as political stability has emerged, only when reconstruction is solidly under way will we be able to make decisions as to a broad development assistance program. The increased capacity for economic and political development resulting from exchanges, people-to-people programs, and the few advisors in key sectors, will be immensely important. It will form the basis for such further developmental assistance as the United States decides is warranted.

DURATION OF PROGRAM

The problems facing the New Independent States (or of any other country) will never be totally "solved", therefore there will be inevitable pressure to continue assistance. Nonetheless, normal bilateral relations based on mutual respect require that we move as quickly as possible from assistance to cooperation based on normal commercial relations. Therefore, assuming reasonable reform progress, new commitments of economic transition funds for Russia should be significantly lower in Fiscal Year 1995, and end by Fiscal Year 1998. New commitments of economic transition funds for the Western NIS states of Ukraine, Belarus and Moldova should be significantly lower in Fiscal Year 1996, and end by Fiscal Year 1998. The process in Central Asia and the Caucasus will be somewhat slower, but should show significant reduction in key states by Fiscal Year 1997 and end in most places by Fiscal Year 2000. The nature of assistance being provided must be consistent with the fact that these programs will be of short duration. Some activities which are funded from the budget of ongoing programs, such as educational, cultural, and scientific exchanges, will continue in all states, of course.

As economic rules and macroeconomic stabilization become clearly established, the pace of domestic and foreign investment should generate significant rates of growth which enable these nations to finance their own problem solving. A fraction of one percent of incremental growth each year can generate sums vastly larger than the levels of our assistance.

COUNTRY SPECIFIC STRATEGIES & BUDGETS

This overall strategy provides the framework for strategies (and related detailed work plans) for each country. The country documents are developed in a process that relies on the in-country

expertise of the Ambassador and the Country Team at the American Embassy, technical input from appropriate experts, and overall guidance from the assistance Coordinator. Their purpose is not to provide detailed plans for specific activities, but rather to set priorities which offer the best likelihood of achieving the objectives set by this strategy. They form the basis for monitoring progress in terms of results achieved.

The budgeting process for assistance funds is integrated into the overall strategy. At the beginning of the fiscal year, a start-of-year budget is established which allocates funds by program sectors and by country: these numbers are subject to change up and down throughout the year based on the principle of aid following reform, and in no way constitute an entitlement. However, assuming that a country's overall pace of reform continues at the level existing at the start of the year, implementing agencies can proceed at full speed to utilize funds at the level set in the initial budget. In addition, there is a substantial reserve which represents a performance fund with which to respond to positive progress; this can be allocated as events warrant, or later in the fiscal year to more reform-oriented countries if the relative pace of various countries has remained constant. In addition, there is a specific contingency fund for emergency situations which may emerge.

The performance fund is used to reinforce country strategies. In most cases, additional allocations will go to ongoing activities: *existing areas of focus may receive enhanced levels of funding, but only in exceptional cases will new activities receive funds.* The fact that all funds are allocated by sector at the beginning of the year means that program managers will not gain by dispersing their activities among more countries. This approach is designed to reward countries for performance by increasing their total funding level, while not rewarding program managers for program dispersal. Therefore, country strategies need to reflect desired areas of sustained focus.

Because this is an integrated strategy, it is important to realize that the nature of the United States assistance program will be very different in states which are lagging in the pace of economic and/or political reform. In the extreme, for example, a program may consist entirely of exchange programs, people-to-people initiatives, and activities with non-governmental organizations. In such a case, the effort would be directed at achieving objectives over the medium and long term by focusing on the country and its people. The non-reforming government would not receive assistance, but the country would, depending on what opportunities there are to provide effective assistance through non-governmental channels, and how pervasively government anti-reform policies inhibit the ability of such assistance to succeed.

RESULTS

In undertaking this challenge, we must not waste our efforts by dispersing our assistance over every need, by confusing the assistance we want to provide with what is really needed, or by deluding ourselves that our role is more than that of helping those who are ultimately responsible. For only sound policies can create a market economy or a democracy, or permit either to succeed over time. Assistance in this brief time of transition must pass as quickly as possible to private sector economic cooperation based on mutual respect and mutual advantage. Economic assistance cannot truly be called successful until it has ended.

We have a brief period in which to see the end of the Cold War through to a time of normal relations with peace and prosperity, and with immense benefits for all. We cannot procrastinate, because after this short period the nature of the successor states to the former Soviet Union is likely to be largely set for some years. Either we will have helped as best we can, or not, and will have to live with the outcome. Although democratic, free market reform within the New Independent States is in our best interest, this is not our challenge alone, for Eastern and Western Europe, the Pacific Rim countries, and the Middle East have at least as much at stake as we do. We cannot determine or compel the outcome, all we can do is ally ourselves with the cause of reform and with the reformers within the New Independent States, and encourage our partners in the international community to do the same. We must provide tangible assistance to help with key issues. Most of all, by doing so we provide support and encouragement for these countries — for leaders and citizens alike — which must ultimately be responsible for decisions which will determine their future.

APPENDIX 3

ALLOCATION OF FISCAL YEARS 1992 AND 1993 FUNDS GRANTED TO THE DEPARTMENT OF DEFENSE UNDER THE NUNN-LUGAR LEGISLATION

Of the \$800 million in FY 92 and 93 transfer authority granted to DOD under the Nunn-Lugar legislation, Congress has been notified of intent to provide \$790 million in assistance to Belarus, Kazakhstan, Russia and Ukraine. We have signed agreements for \$731 million. This amount includes FY 92 and 93 funds that will be allocated for the following projects:

- Chemical weapons destruction (Russia)
- Emergency response equipment and training (Russia, Belarus, Kazakhstan, Ukraine)
- Fissile material containers (Russia)
- International Science and Technology Center (Russia, Ukraine)
- Fissile material storage facility design (Russia)
- Modification of fissile material transport railcars (Russia)
- Armored blankets for use in transport of warheads (Russia)
- Fissile material control and accounting (Russia, Kazakhstan, Ukraine)
- Strategic offensive arms elimination (Russia, Kazakhstan, Ukraine)
- Continuous communications link (Belarus, Kazakhstan, Ukraine)
- Export control (Belarus, Kazakhstan, Ukraine)
- Defense and military contacts (Belarus, Russia, Ukraine)
- Strategic forces facility environmental restoration (Belarus)
- Defense Conversion (Belarus, Russia)
- Fissile material storage facility equipment (Russia)
- Reactor safety (Ukraine)

A total of \$212.5 million of the funds authorized for FY92 was withdrawn by Congress and, thus, was unable to be reprogrammed. Therefore, we expect to spend \$212.5 million of the \$400 million in FY-94 funding to cover the approximately twenty programs that would have otherwise been affected. That leaves, of the original FY94 \$400 million, \$187.5 million to support FY94 projects.

The process of providing assistance has not been without challenge, due in large part to the problems inherent in dealing with the governments of the New Independent States. Nevertheless, with the recent conclusion of umbrella agreements and implementing agreements with Ukraine and Kazakhstan, and additional agreements with Russia, the pace of the program has increased significantly. In fact, during the past seven months we have concluded agreements that will provide over \$512 million in assistance.

The interagency process is underway now to determine how best to allocate the FY94 funds.

The Nunn-Lugar program was crucial to the successful conclusion of the January 14 U.S./Russia/Ukraine trilateral statement, which provides for the transfer of all nuclear warheads from Ukraine to Russia for dismantling. This program has also been essential to the recent decisions by Ukraine to ratify the START I Treaty, and by Kazakhstan and Belarus to join the NPT.

Any modernization of Russian forces must be considered in the context of a significant overall reduction in the former Soviet military establishment. Weapons production in Russia has fallen dramatically over the past five years; in production, by at least 50 per cent for virtually every major weapons system; spending in 1992 was approximately 75 per cent less than in 1988. Given the economic problems in Russia, total weapons procurement is not expected to grow substantially and more likely will continue to decline. Just one example of the decline in production is that the output of tanks fell from 3500 in 1988 to 700 in 1992. Personnel levels have fallen from approximately 4.5 million men in the Soviet military to approximately 1.5 million or fewer today in the Russian military.

Russian conventional modernization is proceeding at a relatively modest pace and procurement by the services is sluggish. In the strategic area, Russia has cancelled unilaterally a number of strategic modernization and tactical nuclear weapons programs, including a short-range attack missile; a small mobile ICBM; a modernized rail-mobile ICBM; and ground launched tactical nuclear weapons. From a starting point at START I signature of approximately 9400 deployed ICBM and SLBM warheads, Russian compliance with START II will result in an approximately 75 per cent cut in warheads deployed on ICBM's and an approximately 50 per cent cut in warheads on SLBM's. The limited modernization of Russian strategic missile forces represents in large part an attempt to restructure Russian forces in keeping with the goals and provisions of the START treaties.

APPENDIX 4

AGREEMENTS AND JOINT STATEMENTS OF THE MOSCOW SUMMIT

Documents signed by the Presidents

Trilateral Statement by the United States, Russian and Ukraine on transfer of nuclear weapons from Ukraine to Russia with Ukraine to receive compensation, security assurances, and assistance in safe and secure dismantlement of nuclear weapons.

President Clinton and Yeltsin provided certain security assurances to President Kravchuk once Start I enters into force and Ukraine joins the NPT. These include commitments: to respect Ukraine's independence and sovereignty and refrain from the threat or use of force against it; to refrain from economic coercion; to seek UN Security Council assistance if Ukraine should be the object of a threat involving nuclear weapons; and not to use nuclear weapons against it.

Presidents Clinton and Yeltsin also informed President Kravchuk that consultations have been held with the United Kingdom, the third depository state of the NPT, and that the United Kingdom is prepared to offer the same security assurances to Ukraine once it becomes a non-nuclear weapons state party to the NPT.

President Clinton reaffirmed the U.S. commitment to assist in the safe and secure dismantlement of nuclear forces. Under the terms of the highly enriched uranium (HEU) contract signed in Moscow, Russia will convert 500 tons of HEU to low-enriched uranium (LEU) and sell the LEU to the United States Enrichment Corporation (USEC), a U.S. Government corporation. USEC will use the LEU it purchases from Russia to fulfill contracts it has to supply fuel for nuclear power stations in the United States and throughout the world. Over the 20 year life of this contract, Russia will earn approximately \$12 billion from sales of enriched uranium that will be sold to commercial nuclear power stations. There will be no net cost to the U.S. Government.

The Annex to the Trilateral Statement records the three Presidents' decision to take certain steps within ten months. These include: provision to Ukraine of fuel assemblies containing 100 tons of low-enriched uranium (to begin the process of compensation); transfer of at least 200 warheads from SS-19 and SS-24 missiles for dismantlement; and an advance payment of \$60 million dollars to Russian against the HEU contract to help defer costs of transporting and disassembling warheads and to produce fuel assemblies.

Moscow Declaration between United States and Russia summarizing the achievements of the summit and current development in the U.S.-Russia partnership.

The two Presidents agreed upon the need to strengthen arms reduction and nonproliferation regimes and to create, together with other interested states, a new mechanism to embrace transparency

and responsibility in the transfer of conventional arms and sensitive dual-use technologies.

Further, the Presidents announced that they would direct the detargeting of strategic nuclear missiles under their respective commands so that by not later than May 30, 1994, those missiles will not be targeted.

The two Presidents reaffirmed their readiness to move forward on the path of openness and mutual trust in American-Russian relations and to create favorable conditions for the comprehensive development of political, commercial, humanitarian, and people-to-people contacts between the two countries. In this connection, the United States intends to open a Consulate General in Yekaterinburg in February 1994.

Documents issued in the name of the Presidents

Joint Statement on Human Rights calls for full respect for human rights and condemns aggressive nationalism, ethnic and religious intolerance, and anti-Semitism.

Joint Statement on Nonproliferation which commits the U.S. and Russia to work closely to prevent proliferation of weapons of mass destruction and their delivery systems, biological weapons, proliferation of ballistic missile technology, and proliferation of other destabilizing military technologies.

President Clinton and President Yeltsin agreed to establish a joint working group to consider:

Including in their voluntary IAEA safeguards offers all source and special fissionable materials, excluding only those associated with activities having direct national security significance;

Steps to ensure the transparency and irreversibility of the process of reduction of nuclear weapons, including the possibility of putting a portion of fissile material under IAEA safeguards. Particular attention would be given to materials released in the process of nuclear disarmament and steps to ensure that these materials would not be used again for nuclear weapons.

The Presidents also tasked their experts to study options for the long-term disposition of fissile materials, particularly of plutonium, taking into account the issues of nonproliferation, environmental protection, safety, and technical and economic factors.

They reaffirmed the intention of interested organizations of the two countries to complete within a short time a joint study of the possibilities of terminating the production of weapon-grade plutonium.

To promote the implementation of a comprehensive ban on

chemical weapons, the Presidents welcomed the conclusion of the implementing documents for the Wyoming Memorandum of Understanding and agreed to conclude work in as short a time as possible on the implementing documents for the Bilateral Agreement on the Destruction of Chemical Weapons.

The United States welcomed Russia's intention to join the Missile Technology Control Regime and undertook to cooperate with Russia in facilitating its membership at an early date.

Fund for Large Enterprises in Russia

President Clinton named Michael Blumenthal, former Secretary of the Treasury under President Carter, as Chairman of the Fund for Large Enterprises in Russia. The Fund will promote private sector development in the Russian Federation.

The U.S. plans to capitalize the Fund with \$100 million in foreign assistance appropriations this year.

Bilateral Trade Mission

The President committed to send a group of U.S. business executives, headed by Commerce Secretary Brown, to visit Russia in March to promote trade and investment.

Documents signed by Secretary of State Christopher and Foreign Minister Kozyrev

Memorandum of Intent Concerning Cooperation in the Area of Export Control commits the signatories to cooperate in discussions, consultations, and training to prevent proliferation of weapons of mass destruction and other destabilizing military technologies.

Air Transport Agreement that will provide American carriers new overflight routes in the Russian Far East and expand service by U.S. and Russian carriers to each other's cities.

Agreement on Cooperation in the Fields of Public Health and Biomedical Research that will facilitate development of direct contracts between scientists, universities, research centers and other institutions on disease control and prevention, public health protection, and biomedical research.

Agreement on Cooperation in Radiation Health Effects provides for broad U.S.-Russian cooperation on the effects of ionizing radiation on human health and environment. Such research can improve understanding of health and safety precautions to protect workers and the public against exposure to radiation from releases from nuclear facilities or nuclear accidents.

Documents issued in the name of the Foreign Ministers

Middle East Joint Statement that will commit both sides to

continue their partnership in promoting the Middle East Peace Process.

Joint Statement on COCOM that will commit both countries to cooperate in replacement of the current COCOM structure with a new multilateral mechanism to prevent proliferation of weapons of mass destruction, their delivery systems, and other military technologies.

Agreements and Joint Statements of President Clinton's Official Visit to Minsk, Belarus

President Clinton reiterated the United States' deep appreciation for the historic steps Belarus has taken in fulfillment of its commitment to a non-nuclear future. He informed Chairman Shushkevich of the availability of additional funds, including \$25 million under the Nunn-Lugar legislation for the Safe and Secure Dismantlement (SSD) of Nuclear Weapons.

To assist Belarus in undertaking serious economic reform. President Clinton informed Chairman Shushkevich of a new package of \$10 million in technical assistance for Belarus that will help fund small-scale privatization, exchanges and training, and projects in health, energy and the environment.

President Clinton and Chairman Shushkevich signed a Bilateral Investment Treaty which will encourage private investment and economic growth in Belarus. An agreement was announced allowing the U.S. Export-Import bank to expand its operations in financing bilateral trade.

The parties agreed to establish an American Business Center in Minsk and further agreed to create a bilateral Business Development Committee to help identify and resolve problems that impede business expansion and to seek ways to develop new business opportunities.

The U.S. and Belarus agreed to establishment of a Regional Enterprise Fund and also signed a memorandum of understanding expressing their intention to establish a Joint Commission for Agribusiness and Rural Development. Noting a recent protocol signed between the United States and Belarus in Washington providing credits to Belarus for the purchase of U.S. wheat exports, President Clinton informed Chairman Shushkevich of the availability of an additional \$10 million in P.L. 480 credits to be used for the purpose of U.S food commodities.

President Clinton announced a donation of humanitarian medical equipment and training worth \$10 million for the Republic of Belarus. The equipment will be sufficient to equip an entire 1,500-bed hospital.

President Clinton pledged American technical electoral assistance as soon as a date for new elections is announced by the Supreme Soviet. These elections now appear unlikely to take place in 1994.

APPENDIX 5

FOREIGN POLICY GOALS OF RUSSIA AND THE FORMER SOVIET UNION

The overall goal of Russian foreign policy has been to create an international environment propitious to the continued pursuit of internal reform and to the advancement of Russian security, political, and economic interests.

-- This has led to a Russian policy of partnership and cooperation toward the United States and Western Europe. Given its urgent domestic problems, Moscow neither wants nor needs a competitive relationship with the West. Russia's long-term goal is integration into the democratic community of market-oriented countries -- which will yield Russia important political and economic benefits.

-- The Russians view Partnership for Peace (PFP) as an important element of an emerging new European security architecture. Russia has expressed the intention to participate actively in PFP. The form of Russian participation is currently under discussion.

-- In connection with PFP, Russia has expressed an intention to conclude substantive agreements opening the way for broad and intensive cooperation between Russia and NATO. President Yeltsin has stated that he could envision Russia eventually entering NATO in a "package" with other applicants. We believe NATO membership for each individual country ought to be considered on its own merits.

-- Official Russian spokesmen have stated that the countries immediately bordering Russia represent a region of vital security interest for Russia and that stability in this region is a primary goal of Russian foreign policy.

-- Russian policy toward Eastern Europe and the Baltics recognizes the sovereignty and independence of these countries. As part of this policy, Russia is in the process of removing its troops from Central and Eastern Europe.

-- Russian policy toward Asia has been to promote peaceful and stable relations with its eastern neighbors and, to the extent possible, participate in the burgeoning economic dynamism of that region. The key unresolved territorial issue involves Japan and the Northern Territories.



The goals and objectives of Soviet foreign policy were much different and fundamentally hostile to U.S. interests. Viewing international relations as a zero-sum game with the United States as their chief rival and adversary, the Soviets undertook a global policy of expanding their influence wherever possible.

-- Soviet leaders' first priority was to maintain totalitarian control in the Soviet Union.

-- They sought to dominate Eastern Europe through communist satellite regimes and the presence of Russian troops.

-- The Soviet Union sought to diminish U.S. presence and influence in Western Europe.

-- It also sought to undermine U.S. influence in other regions of the world, including the Middle East and Asia. Russian relations with China were marked by great suspicion, competition, and, at times, armed conflict.



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